H.J. Heinz Company Annual Report 1973

THE COVER: A four-year old's life is full of wonders and discoveries. Our model displays a preschooler's ability to be thrilled by it all, especially when she comes across a winter-bearing tree. Tomatoes and cucumbers when the snow lies deep enough for sledding? Why not? What is symbolized here is the state of Heinz technology, which has helped to free us of total dependence upon harvest times and made nutritious foods available on a year-round basis. In agriculture, in storage techniques, in processing, we have conquered the limitations of season. We wouldn't dream of trying to explain this to our four-year-old. She'll understand when she grows up. For the present, she enjoys splashing ketchup over a variety of foods and biting into a crisp, juicy pickle—and doesn't ask where they came from or how they got there. She and millions like her are part of the reason for Heinz, and explain why we enjoy the business we are in.

A limited number of copies of the cover illustration, painted by the distinguished American artist Arthur Lidov, are available. The picture is slightly enlarged and is suitable for framing. Address: Director of Corporate Public Relations, H. J. Heinz Company, P.O. Box 57, Pittsburgh, Pa. 15230.

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ANNUAL MEETING

The annual meeting of company shareholders will be held at 2 p.m. on Wednesday, September 12, 1973, at World Headquarters in Pittsburgh. Formal notice of the meeting and proxy materials will be sent to shareholders about August 3, 1973.

H. J. HEINZ COMPANY
P.O. Box 57
Pittsburgh, Pennsylvania 15230
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Highlights

(In thousands of dollars except for number of shares and shareholders and per share data)	1973	1972	% Change
Net sales	$1,205,912	$1,098,862	+ 9.7
Net income before extraordinary loss	46,552	42,287	+10.1
As a percent of sales	3.9%	3.8%	
Per share of common stock:			
Net income before extraordinary loss	$ 3.08	$ 2.80	+10.0
Dividends	1.05	1.01	+ 4.0
Book value	26.25	25.89	+ 1.4
Additions to property, plant and equipment	$ 48,322	$ 28,067	+72.2
Depreciation expense	19,229	18,624	+ 3.2
Net property, plant and equipment	259,083	235,060	+10.2
Working capital	286,067	253,005	+13.1
Shareholders' equity	$399,607	$394,519	+ 1.3
Number of common shareholders	10,304	10,630	
Average number of common shares outstanding	15,060,858	15,025,539	

Headlines

IN FISCAL 1973 H. J. HEINZ COMPANY

■ Achieved its 10th consecutive year of record-breaking figures for sales and earnings from operations. ■ Carried out a write-down of certain foreign operations, mainly in Mexico, which resulted in a one-time net loss for the third quarter, but removed what had been a heavy drag on prospects for future growth and profitability ■ Fought against inflation, stronger competition, a cost-price squeeze, fluctuating currencies and other factors by means of continuing cost-improvement efforts, stronger marketing activity, and new product development. ■ Acquired promising companies in Australia and Brazil—the latter providing entry into a newly-booming market—and pursued the search for worthwhile acquisitions elsewhere. ■ Co-ordinated new product development and purchases of major agricultural commodities for more profitable participation in Common Market areas. ■ Modernized many facilities and took over certain functions, such as can-making, formerly performed by others. ■ Restructured World Headquarters operations to facilitate prospects for world-wide expansion. ■ Proved the worth of mechanical harvesting, bulk handling, plant breeding and similar Heinz-fostered agricultural practices as the company fared better than others under unfavorable weather conditions in many growing areas. ■ Marketed Heinz U.S.A.'s first frozen food variety after having acquired facilities for its production. ■ Successfully refuted the arguments of protectionists, who would limit the activities of multinational organizations such as Heinz, by proving that the company's overseas operations help the U.S. balance of payments and do not reduce domestic employment. ■ Strengthened the company's century-old reputation for good citizenship by further management moves to encourage ecological projects, improved employee relations, equality of opportunity, dedication to the nutritional needs of consumers, and service to society at large in all operating and marketing areas, particularly in communities that house Heinz production facilities.

H. J. Heinz Company sales exceeded the billion-dollar mark for the second consecutive year in fiscal 1973. In doing so, we registered our 10th consecutive year of gains in sales and earnings from operations. Net income was reduced by a one-time extraordinary charge, which is discussed more fully below. That charge was reflected in third-quarter net earnings; each other quarter set new highs when measured against comparable periods.

Economic conditions for the year were highlighted by accelerating inflation around the world, resulting in higher costs for most of the goods and services we buy. Taxes were generally up. Intensified competition and governmental actions restricted our ability to make price adjustments that would fully compensate for the increased expenditures necessitated by these developments. Foreign currencies fluctuated widely in relation to a devaluated dollar.

The industry took careful notice of consumer protests against mounting food prices. The U.S. Department of Agriculture, however, has pointed out a number of pertinent statistics. Over a 20-year period, U.S. per capita consumption of beef almost doubled, and higher wages and real disposable income, along with food stamps and food distribution programs, which now help 15 million lower-income people, have created a record demand for food. Hourly wages rose by 140 percent over the two-decade period, while the cost of home-use food went up by only 38 percent. As a result, food's share of average after-tax disposable income dropped from 23 percent to 15.7 percent and canned processed food's share declined even more.

Nature added to our problems, with adverse weather striking at some of our most important growing areas. Encouragingly, the strength of our agricultural efforts was proved by the fact that our losses were less than those of some other food processors and less than for similar conditions in the past. We extended such practices as mechanical harvesting, bulk handling, new storage techniques, the application of new Heinz-developed plant strains, assistance to growers, and the far-reaching establishment of new supply sources.

Last January, we announced a one-time extraordinary charge of $25 million, equivalent to $1.66 per share. By far the greatest proportion of this amount involved the phasing out of our Mexican operations. The decision was made only after painstaking evaluation of the alternatives, but once reached it was carried out boldly and vigorously. We had worked for 10 years to preserve the operation, and had increased sales, but internal difficulties beyond our control made impossible any early hope of fair return. Losses in Mexico had placed a drag on our corporate earnings. We determined that other opportunities looked more promising and therefore deserved higher priority in the allocation of our resources. We believe that the withdrawal from Mexico in favor of other ventures will stimulate our long-range growth and profitability.

Considering the forces discussed above—inflation, strong competition, a cost-price squeeze, adverse weather, and the withdrawal from a sizable market—Heinz performance for fiscal 1973 may be viewed as impressive. Our ability to thrive in the face of such forces can be attributed to a number of factors:

1. We have been successful in developing a corps of managers among the finest in the industry. Our Management Incentive Program, which ties performance to compensation, and our continuing attention to the implementation of development programs have greatly strengthened management resources. There has been a steady drop in the average age of our top management group and of the managing directors of our individual companies. Perhaps uniquely among multinational companies, we have promoted a high degree of local autonomy, with a lean World Headquarters group, providing on-the-spot response to changing conditions.

2. We have exercised leadership in technological developments within the food processing industry. Our attainments in agriculture have already been commented on above. They should not be underestimated, since they have contributed heavily to our profitability and to our production capacity and flexibility. In addition, fiscal 1973 saw profit-improvement programs in force at all our units, with major updating or replacement of facilities in the interest of greater efficiency.

3. We have been marketing our products abroad since 1886. Access to growing world markets for reciped convenience foods has been a major source of strength. We are firmly situated, thanks to our British company and our Continental European organization, to take advantage of new developments in the Common Market. In the Pacific Basin, our Australian company is solidly rooted within a growing economy. Nichiro Heinz achieved its second consecutive year of profitability in Japan, a country that is becoming increasingly dependent upon foreign sources for major elements of its food supply. We have presence in South America through our Venezuelan company and a new acquisition in Brazil. We are investigating further possibilities for marketing in Eastern Europe. The contribution of foreign earnings is particularly important during a time of domestic price controls and dollar devaluation. Each of our companies now has a department charged with responsibility for new business development, stressing acquisitions that offer satisfactory rates of return. Such acquisitions during fiscal 1973 brought under our banner Epicure Continental Food Company of Australia, which enjoys a high reputation for quality, and Industrias

Alimenticios Heron, which has operated for six years in the booming Brazilian market.

On the domestic front, Heinz U.S.A. acquired facilities for manufacture of its first frozen food variety, a pizza product for school lunches. The acquisition provides a foothold for expansion into a large market.

World Headquarters management was restructured twice, with the latest changes taking place after the close of the fiscal year. R. Burt Gookin, president since 1966, was elected vice chairman, and Anthony J. F. O'Reilly, named executive vice president earlier in the fiscal year, became president. Mr. Gookin remains as chief executive officer and Mr. O'Reilly as chief operating officer. In related moves, Franklin E. Agnew, formerly senior vice president-finance, was named senior vice president in charge of Australia, Canada and Latin America, joining two other senior vice presidents with area responsibilities: John A. Connell, managing director of Heinz-Britain, who supervises Heinz operations in the United Kingdom, Portugal, Italy and Continental Europe; and Joseph J. Bogdanovich, president and chief executive officer of Star-Kist Foods, who is responsible for Star-Kist and Nichiro Heinz. All area senior vice presidents report to Mr. O'Reilly, who retains responsibility for H. J. Heinz Company domestic operations in the U.S.A. and for Ore-Ida Foods, Inc. Frank M. Brettholle, formerly vice president and corporate controller, was named senior vice president-finance, succeeding Mr. Agnew. The restructuring facilitates the company's ability to expand in the growing international market for processed convenience foods.

In other appointments, J. Wray Connolly became treasurer and David A. Lattanzio became corporate controller.

Star-Kist voluntarily recalled approximately 3,600 cases of tuna fish, some of which had caused incidents of a nontoxic, virus-like illness, most of them short-lived. The impact of this highly publicized action on Star-Kist sales appeared at year end to be both minor and temporary.

At fiscal year end Peru announced nationalization of its fish meal industry, an action that included certain Star-Kist fish meal, fish canning and freezing operations in that country. Because of the limited availability of anchovies in Peruvian coastal waters, these operations did not make a significant contribution to Heinz consolidated earnings during the year.

As shareholders, you will wish to know your company's view on two public issues:

There has been mounting pressure for increasing protectionism in America's conduct of its trade with other countries. Most conspicuous of the measures discussed has been the proposed Burke-Hartke Trade Bill, which is directed at multinational companies and would penalize investments overseas. The proposal is based on charges that these companies export jobs to the detriment of American workers, that they depend on the economies of lower wages, and that they upset America's balance of payments position.

The fact is that American investments abroad create more jobs at home. A Commerce Department study shows that during the past decade the top 233 multinationals increased their domestic manufacturing employment by seven percent while total domestic manufacturing employment rose by less than one percent. Last year the multinationals made a $4.5-billion net contribution on the plus side of the balance of payments picture, with a $9.5-billion inflow from earnings, fees and royalties on previous investment, as against a $5-billion outflow for new investments—which in turn will improve future earnings inflow. They generated $3.4 billion more in new exports than in new imports. They competed against foreign multinationals that enjoy tax advantages similar to our own, the loss of which could drive many U.S. companies out of the Common Market, where American business already has a $27.6-billion investment.

The history of Heinz, in particular, successfully refutes the arguments of the protectionists. We do not import finished goods produced abroad, and certainly do not exploit low-cost labor. We help the U.S. balance of payments by selling in markets we could not reach without building or buying foreign facilities to serve those markets. The jobs we create abroad do not affect American employment, since our export potential from the U.S. is limited by freight costs, different labeling and ingredient requirements, and high import duties and import quotas.

The other issue of public interest has to do with what we call public service, and is discussed in detail in the section of this report headlined under that name. In every area of reasonable public challenge—for environmental improvements, for better nutrition, for grants and gifts, for equal opportunity, for whatever seemed appropriate in an impatient age—we responded sympathetically and quickly to the best of our abilities. Underlying these many and varied efforts is a century-old lesson: Heinz flourishes best where it best serves the communities in which it operates, the people who work for it, and the consumers who buy from it.

We feel confident that fiscal 1974 will see further progress for Heinz as we pursue and adapt to new circumstances the philosophy and practices that have guided us so successfully through the past decade. With the continued backing of our employees and shareholders, for which we are most grateful, we expect the company to reach new highs in performance.

Henry J. Heinz II

Chairman

R. Burt Gookin

Vice Chairman and
Chief Executive Officer

Vice Chairman R. Burt Gookin and Chairman Henry J. Heinz II reported the 10th consecutive year of gains in sales and earnings from operations.

Financial Review

10TH CONSECUTIVE RECORD YEAR

Fiscal 1973 saw consolidated sales advance well beyond the $1-billion mark achieved last year. Sales rose 9.7 percent over fiscal 1972 to a record $1.2 billion, the 10th consecutive year in which sales reached new highs. Net income from operations also reached a new high, rising to $46,552,000, or 10.1 percent above the fiscal 1972 level. The corresponding earnings per share, before an extraordinary charge, rose to $3.08 a share from the $2.80 a share posted in the prior year. These advances in sales and operating profits were achieved despite the problems caused by intensified world-wide inflation, price controls in some countries, and international monetary instability.

During the year important decisions were made to phase out the operations of our Mexican subsidiary and the direct farming operations of a domestic subsidiary, and to write down the assets of other, less significant foreign operations, including those assets of a subsidiary which was subsequently expropriated by the Peruvian government on May 8, 1973. An extraordinary charge of $31,500,000 less possible income tax benefits of $6,500,000 was made in 1973 as a result of these decisions. Net income for the year was reduced by this extraordinary charge to $21,552,000. This provision represents management's best estimate of the ultimate net losses to be incurred as a result of these actions. The accompanying financial statements have been restated to reflect the operations and net assets of the discontinued and expropriated subsidiaries on the equity method of accounting.

Because of the continued decline of the number of convertible preferred shares outstanding, the dilution effect of these shares has become virtually insignificant and is no longer presented.

GOVERNMENT CONTROLS

During fiscal year 1973 the company operated under various forms of government controls on selling prices, wages and profit margins in several areas of the world. Such controls were adopted in the United Kingdom during the year without significant effect on operating results. In the United States the company operated under a continuation of strict domestic wage and price controls and in an inflationary environment where costs of ingredients, packaging materials, human skills and the other factors of production were considerably higher than in the prior year. Stringent efforts to cut costs and improve efficiency and productivity helped offset some cost increases, but were not sufficient to maintain domestic operating margins.

FOREIGN SALES AND EARNINGS

Foreign sales and earnings showed satisfactory increases. These increases were diminished to some extent by the influences of international monetary instability. The changing value of the dollar versus other currencies adversely affected foreign profit by approximately six cents a share, or about two percent of total income for the period. Adjustments to net current assets of foreign subsidiaries resulting from currency fluctuations were charged to the reserve for international operations.

The accompanying table shows the five-year trend in sales and earnings contributed by foreign affiliates versus their domestic counterparts.

DOMESTIC SALES AND EARNINGS

Domestic sales in fiscal year 1973 increased by 12.3 percent, reflecting an exceptionally strong demand for a number of product lines. Domestic net income increased to 57 percent of total corporate income, resuming a trend which was temporarily broken in fiscal year 1972. Domestic profits benefited from increased sales volume, increased interest income, and increased income from companies in U.S. Possessions which operate pursuant to a number of tax incentives.

QUARTERLY RESULTS

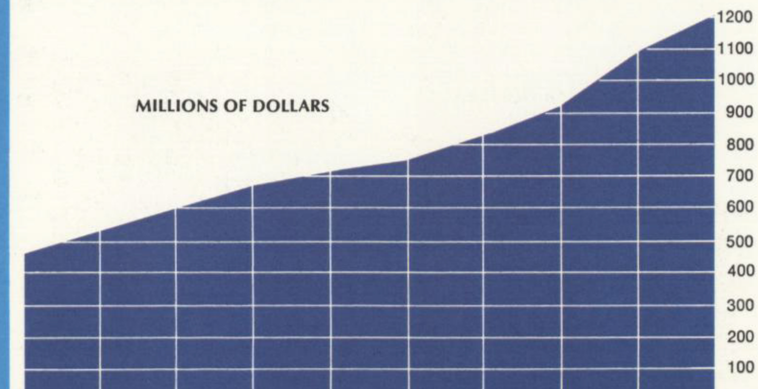
In the table of quarterly results shown at right, net sales have been restated to remove the sales of discontinued and expropriated companies previously reported on a quarterly basis. Quarterly sales increased in all but the fourth quarter, which was adversely influenced by a 13-week period this year versus a 14-week period last year and by the relatively higher currency rates in effect in the latter part of fiscal year 1972.

There was no charge against earnings for the combined losses of discontinued and expropriated companies in the fourth quarter of fiscal year 1973, a fact that contributed to a larger increase in that quarter's profits over the prior year. Historically, results in any particular quarter have not necessarily been reflective of the over-all performance trend for the year.

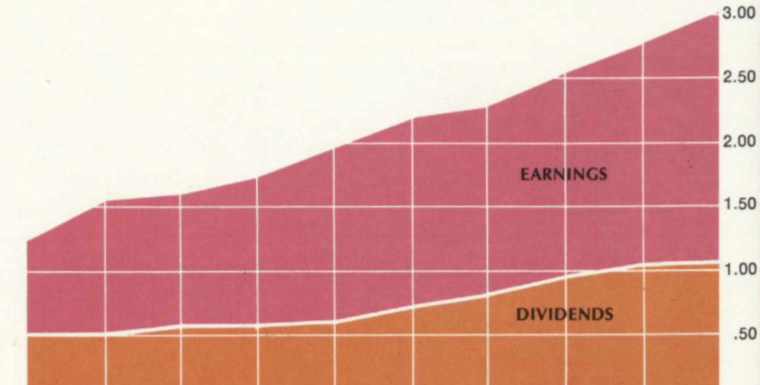
DIVIDENDS

The quarterly dividend rate was increased from 26 cents to 27 cents per share in March, 1973, bringing the annualized payout to $1.08 per share. This was the sixth consecutive year in which shareholders received an increase in dividends.

Dividend increases in the last two fiscal years have been limited by certain restrictions set forth by the Committee on Interest and Dividends.



GROWTH OF SALES



EARNINGS & DIVIDENDS PER COMMON SHARE

CAPITAL EXPENDITURES/FUNDS FLOW

In fiscal year 1973 the company invested $48.3 million for property, plant and equipment, a substantial increase over the prior year. Investments supported a wide range of programs referred to in other sections of this annual report. It is expected that programs planned for the current fiscal year will aggregate to about the same level as last year.

Funds derived from operations (before extraordinary charge) substantially exceeded requirements for dividends and capital expenditures. (See Statements of Consolidated Changes in Financial Position on page 28.)

FINANCING PLANS

During the year the company completed the public sale of $50 million in 25-year debentures with an interest rate of 7¼ percent.

In December, 1972 the board of directors authorized the company to repurchase from time to time up to 250,000 shares of its common stock. Shares will be held in the company treasury for conversion of outstanding second cumulative preferred shares and for use in existing stock option programs.

10-YEAR PERFORMANCE

The company's performance during the past 10 years, summarized in the 10-year financial summary on pages 34 and 35 and in the four charts in this section, indicates the success of the programs launched since 1964 to stimulate the company's growth. Since 1963 Heinz has had a compound annual growth rate in sales of 10.0 percent and in net earnings of 14.1 percent, while earnings per share have grown at a rate of 11.5 percent on a fully diluted basis. During this 10-year period dividends have more than doubled.

FINANCIAL RESULTS BY QUARTER

(In thousands of dollars except for per share amounts)

	Net Sales	Net Income(1)	Earnings Per Share
1973			
First	$ 267,634	$ 8,064	$ .53
Second	322,595	12,065	.80
Third	281,824	7,359	.49
Fourth	333,859	19,064	1.26
	$1,205,912	$46,552	$3.08
1972			
First	$ 229,972	$ 7,503	$ .50
Second	288,705	11,235	.74
Third	245,825	6,806	.45
Fourth	334,360	16,743	1.11
	$1,098,862	$42,287	$2.80
Percentage Increases			
First	16.4	7.5	6.0
Second	11.7	7.4	8.1
Third	14.6	8.1	8.9
Fourth	—	13.9	13.5
	9.7	10.1	10.0

(1) Before extraordinary loss.

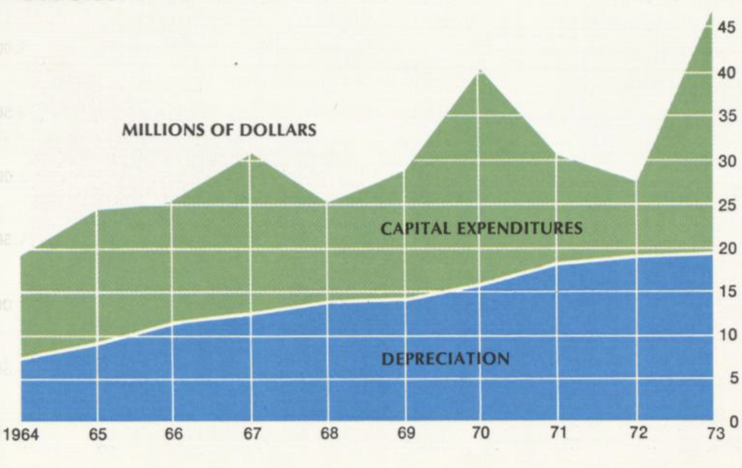
COMPARISON OF FOREIGN AND DOMESTIC SALES AND EARNINGS

(Dollar amounts in thousands)

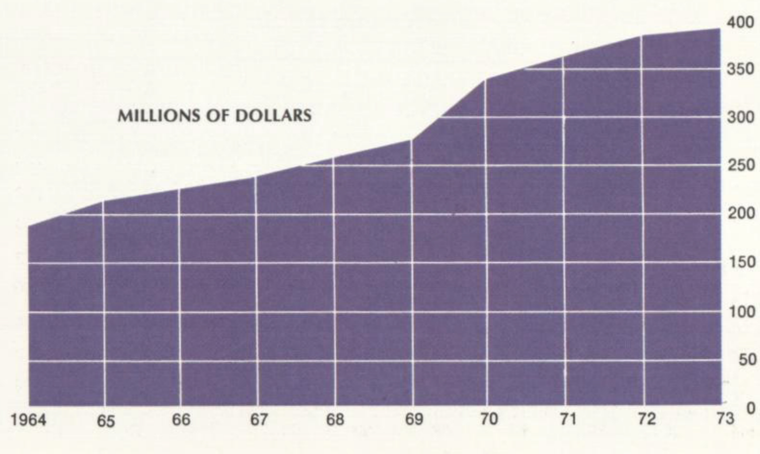
	1973	1972	1971	1970	1969
Net Sales (1)	**$1,205,912**	$1,098,862	$939,014	$838,136	$758,861
Foreign	**501,324**	471,700	382,264	349,377	315,870
% of Total	**42**	43	41	42	42
Domestic	**704,588**	627,162	556,750	488,759	442,991
% of Total	**58**	57	59	58	58
Net Income (2)	**46,552**	42,287	37,668	31,706	27,587
Foreign	**20,239**	19,059	16,726	15,196	14,152
% of Total	**43**	45	44	48	51
Domestic	**26,313**	23,228	20,942	16,510	13,435
% of Total	**57**	55	56	52	49

(1) Restated to exclude sales of discontinued and expropriated operations.

(2) Before extraordinary items; 1969 and 1970 restated to reflect prior years' adjustment.



CAPITAL INVESTMENT IN PLANT AND PROPERTY



GROWTH OF SHAREHOLDERS' EQUITY

Marketing

Heinz U.S.A. functioned in an environment of economic stress. Continuing inflation, along with government efforts to slow the rise in living costs, affected the entire food processing industry, which remained under the restraints of strict governmental price controls. Competition within the industry helped to keep the company from taking full advantage of even those price improvements that the government would permit.

At the same time, many costs accelerated more rapidly than the company's ability to gain compensatory price relief. Raw agricultural products were exempted from the price provisions of the Economic Stabilization Program.

Under these conditions, Heinz U.S.A. worked to preserve its position through profit-improvement programs, product innovation, imaginative marketing and other measures.

Ketchup reached an all-time high in share of market, helped by strong new advertising approaches. A new recipe formulation of our basic Worcestershire Sauce brought a significant increase in consumer acceptance and market share. We strengthened our number-two position in baby foods. We held a similar ranking in soups.

Packaging changes included complete conversion to press-on/twist-off-style closures for all baby foods except strained and junior meats; the application of easy-open ends to our 5½-ounce tomato juice cans and to all foodservice juice products, including citrus; redesign of 57 Sauce packages to standardize the contents to even ounces; streamlining of the barbecue sauce bottle; and the first five-gallon plastic pickle pails for the foodservice industry.

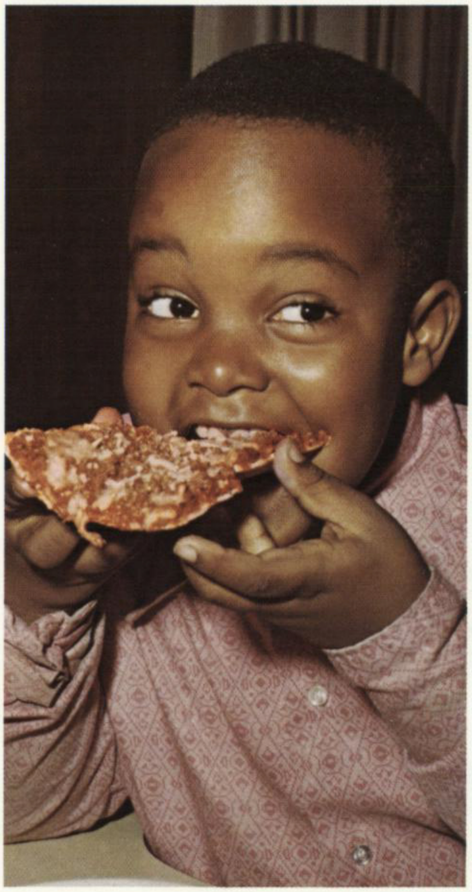
For the growing fruit drink market, whose sales are estimated at $400 million annually, Heinz U.S.A. announced successful completion of test marketing for its concentrated HELP. Promotion for the 12-ounce can, which can be reconstituted to make 48 ounces, stresses improved taste, reduced weight and bulk in the shopping bag, and conservation of in-home storage space. The product, which contains 100 percent of the minimum daily requirement for Vitamin C, was originally tested in three areas and is now being made available in eight states east of Illinois, reaching 38 percent of the population.

Test marketing of concentrated vinegar proved successful, exceeding market share objectives.

Further distribution will take in four districts.

The company entered a $160-million market with a new grocery line of premium-quality pourable salad dressings, attractively packaged to encourage on-table use. Among the package features are a handle for ease in pouring, with a removable label and with a special pour fitment for Italian dressing to facilitate proper mixing. The product is offered in several metropolitan test markets.

Foodservice volume made strong gains, growing at a rate more than 250 percent that of the industry as a whole, which in turn is now estimated to account for $21 billion annually in manufacturers' sales and has been expanding at a pace more than twice as great as that for total super-



market volume. The 1973 annual poll by Industrial Distribution magazine, for the third consecutive year, honored Heinz as "Number 1 Foodservice Manufacturer in the Industry."

To serve that market, Heinz U.S.A. last November began test marketing its first frozen food product, a pizza designed specifically for use in schools. The newly-formed Business Development Division, after identifying the market, undertook co-ordination of the entire operation, from production through sales. Test-market results have exceeded initial expecta-

tions, and the national expansion program will be completed in the fall. Heinz "Educated Pizza" is unique in that it has qualified for the majority of U.S. Department of Agriculture Type A requirements with a single popular, low-cost product that is easy to prepare and serve. It meets all school lunch requirements when supplemented with a medium-sized fresh fruit and one-half pint of milk. Because of its popularity, it reduces plate waste, thereby increasing nutritional intake. Its resealable bag offers convenience and clean storage of partially used product. The introduction came at a time when figures showed that pizza may surpass hot dogs and hamburgers in sales to school-age children.

Star-Kist continued to make substantial gains in sales and shares of markets, cementing its role as the world's largest processor of tuna fish and improving its position in pet foods. Tuna sales gains exceeded those for the industry as a whole, while gains in market shares equaled or exceeded those for any other brand.

Heinz U.S.A.'s first frozen food product, "Educated Pizza."

The tuna fish market is booming at an estimated rate of $485 million in retail sales per year, with calendar 1972 showing a 25 percent gain over 1971. This record is attributed to the consumer's recognition of tuna as an excellent source of protein to be substituted for high-priced meat, and as a nourishing low-calorie food for an increasingly weight-conscious public.

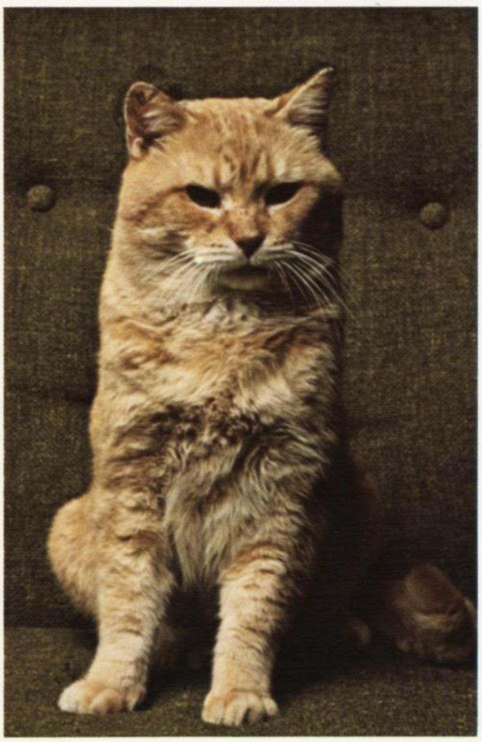
Several factors contributed to Star-Kist performance. Among them was the introduction of solid white tuna in water in 10-ounce packages and solid light tuna in water in 7-ounce packages, adding substantially to sales volume.

Star-Kist's 9-Lives brand continued to strengthen its position in the $460-million cat food market. Successful introduction of three new combinations brought the total line to 15 items. 9-Lives dry cat food, now in its second year, made sales gains in a $105-million market.

Ore-Ida, which produces the nation's largest branded retail line of frozen potatoes, registered significant gains in both retail and foodservice sales. At the same time, profits improved as an ongoing profit-improvement program became increasingly effective. Specialized project teams, the first of which were assisted by outside management consultants, conducted in-depth studies that led to recommendations for more efficient operations and the reduction of operating capital requirements.

Ore-Ida established separate retail and foodservice sales divisions, with additional field managers assigned to each for proper supervision of the company's extensive national broker network. National advertising for the Ore-Ida retail brand, concentrating on space in leading women's magazines, appeared for the first time. Its target was increased awareness of the Ore-Ida brand name and association of that name with top quality in potato and onion products.

Ore-Ida began test marketing of two new products. Garden Fries are a line of French-fried vegetable products, such as green beans. Yankee Crispers offer an extruded form of French fries in plain, onion and bacon flavors. A third product, Onion Ringers, went quickly from introduction into expanded national distribution. It differs from similar products in that it is made from chopped fresh onions, resulting in greater crispness and uniformity of size and offering the consumer more onion per ring. Consumer demand has led to round-the-clock production. Comparable acceptance followed national expansion of distribution for a line of Tater Tots with onion and bacon flavoring. A new line of hash browns with butter sauce under the Deep Fries brand went into half of the U.S. market after successful testing.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1. Star-Kist television hero Morris the Cat.
2. Conveyor for processing string beans in Ore-Ida's new French-fried vegetable line.
3. One of Heinz U.S.A.'s new pourable salad dressings.

Heinz of Canada again achieved gains in sales and profits in an economy characterized by challenging developments, including a poor harvest for some ingredients.

The Canadian company retained its brand dominance in large markets, with leadership in spaghetti, ketchup and baby foods. Its sales to the $3.5-billion foodservice market continued to expand.

The company introduced six new baby food varieties, three new vinegar varieties, and a new shrimp cocktail. It launched an easy-open can for minute meals and ready-to-serve soups, and successfully tested the easy-open pull tab for its 10-ounce size of tomato juice, an innovation it intends to apply also to the 6-ounce size.

Galco Food Products, a poultry processor whose acquisition in fiscal 1972 positioned the Canadian company in the frozen foods market, had a successful year, hampered only by a $3^1/_2$-week work stoppage that prevented it from exceeding forecast sales and profits.


2

3

Heinz-Britain held a competitive position as strong as ever, retaining market shares ranging from 50 to 95 percent in 10 of its 12 major food categories.

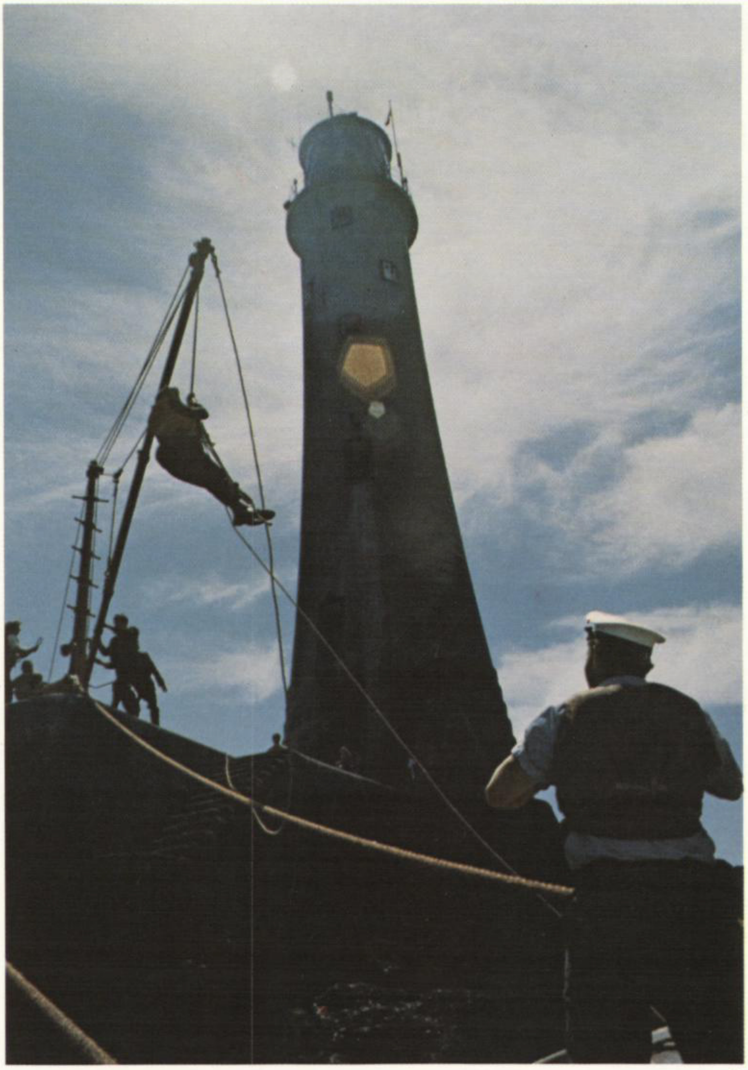
Sales of Heinz-labeled products reached a new high, and record volumes were achieved for soups, puddings, pie fillings, sandwich spreads, ketchup, ravioli, macaroni and spaghetti bolognese. A 30 percent sales increase in the range of bean meals—beans with sausages, with frankfurters and with baconburgers—led to significant rises in volume and market share in spite of intense competitive pressure.

Strong summer advertising and promotion were major factors in the record volume for soups, with 20 percent sales increases recorded during that season. New recipes and packaging helped to produce a 12 percent increase in sponge puddings sales. Sales of pasta products—canned ravioli, macaroni cheese and spaghetti bolognese—soared by 40 percent each after the introduction of new labels and stepped-up advertising. Regional television advertising of sandwich spread contributed to a 25 percent sales increase. A wide range of catering (foodservice) products reached record tonnages, with sales 20 percent above the record figure reported last year.

Product innovation and extension remained important factors, with approximately 10 percent of the company's sales coming from items either nonexistent or in limited distribution two years ago.

The company further enlarged its range of canned dairy products, strengthening its position in that market. The canned custard market has tripled since introduction of the new aseptically-filled dairy custard, which now holds a brand share of more than 80 percent. Heinz sales rose by 21 percent.

Five new milk puddings offered unique recipes with added cream. The range of canned milk puddings, which includes rice pudding with cream, is now distributed nationally. The same is true for canned beefburgers, which now hold a dominant share of the U.K. canned burger market, and for toast



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4. Among Canadian introductions: three flavored vinegar varieties.
5. British salesman making a call at Wolf Rock Lighthouse.
6. "Beanz" TV commercial keyed to Britain's entry into the Common Market.
7. Heinz displays in a London store.
8. Showcard for British tea bags in foodservice packs.

toppers—a range of grilling spreads that has created a new market in which Heinz enjoys a 97 percent brand share.

Test marketing proceeded as planned for laminated aluminum containers made by Steralcon, the company formed jointly in 1970 by Heinz and Swiss Aluminium. An entirely new range of nine main meal products packed in the containers was developed for the catering trade. Their shelf life is equal to that of conventional canned products, at normal temperatures, with no special storage facilities required. The contents—seven meat and two fish varieties—can be heated in either ovens or pans of boiling water.

Heinz-Britain pursued its search for domestic acquisitions, at the same time helping to establish a significant Heinz presence in Europe. The Darlington mushroom and spawn-producing subsidiary further extended its facilities to meet a growing European market. The Pickerings subsidiary, which specializes in milk and canned vegetable products, made significant progress, and practically all the dairy products made at its Coleraine plant in Ulster now carry Heinz labels.

Italy went through a period of economic difficulty created by continual labor unrest and disruption of public services, combined with escalating inflation. This atmosphere affected the baby food market, now more price-oriented than ever before. Competition made price increases difficult to impose, while costs went up for labor, meat and some milk derivatives.

The Italian distribution picture went through an extremely dynamic transformation, creating a complex mosaic that ranged from emerging large-scale units to small independent retailers. Plasmon has tailored its sales and distribution system to adapt to this change.

Marketing activities concentrated on preservation of brand shares, while new product activities explored various complementary products, such as mineral water, dietetic crackers, pasta dishes, baby clothing, and energy drinks for children.

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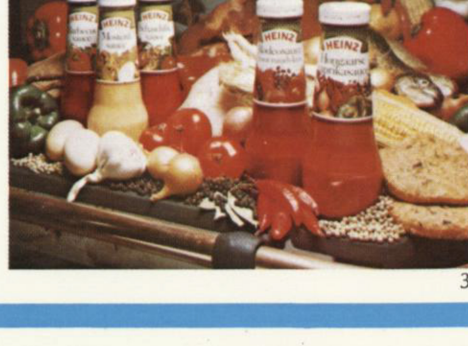

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1, 2. Key Plasmon products for Italian consumers: dietetic biscuits in process; baby foods.
3. Five new condiment sauces for Central European markets.
4. Heinz area at Holland's largest foodservice fair.
5. Portuguese products bearing Guloso brand labels.
6. New "jerrycans" of ketchup from Holland for foodservice use.

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CE Our Central European operation, headquartered in Belgium, was faced with wage boosts, inflationary trends and monetary fluctuation. The organization countered with strengthened cost-improvement programs, the gradual replacement of low-margin products in favor of those offering higher margins, and significant improvements in internal communications and information systems. It continued to follow, insofar as possible, realistic pricing policies.

Sales rose strongly in the French, German and Belgian markets. Over-all sales, while showing some improvement, were affected by a drop in Dutch volume, resulting from the discontinuance of such low-margin products as jams, soups and baby food. This action, on the other hand, contributed to an over-all growth in gross profit. Heinz in Central Europe showed an operating profit for the first time in its 10-year history.

A major internal development program prepared during the year was expected to produce significant results beginning in fiscal 1974. Perhaps the most important change was the institution of area-wide coordination in new product development, which should result in more effective and more efficient launches in Common Market countries.

Ketchup sales preserved their strong rate of growth in all markets, with corresponding rises in market shares in The Netherlands, Belgium and France.

New and attractive label designs were under development for Heinz-branded products in all markets.

New products included a line of five handsomely packaged condiment sauces introduced into all four Central European markets and a line of five relishes, already introduced in France and Belgium. The Dutch company's TEO dessert sauce line was repositioned and relabeled, with beneficial sales results. Improved baby food formulations were being developed for the Belgian market. The Heinz

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foodservice sales force took part in Holland's largest national fair for owners and purchasers of institutions, hotels, restaurants and fast-food cafeterias and snack bars. A special promotion brought more than twice as many orders as last year's fair. The enthusiastic reception of the 12-kilogram ketchup "jerrycan," which had been introduced two months earlier, led to predictions that Heinz ketchups would reach the dominant position in fast-food restaurants that they have already achieved in hotels, restaurants and institutions.

Our company in Portugal, operating in an extremely inflationary economy, and sustaining heavy losses in direct farming, found it difficult to generate profits. Management was optimistic at year end about stronger prices for its tomato puree exports.

Sales increases were recorded for tomato pulp, ketchup and mayonnaise.

The company introduced a line of five fruit-flavored nectars for which it reported excellent trade and consumer reaction. The ketchup line was extended with a curry-flavored product that achieved good distribution and a sizable expansion of shelf space in supermarkets. Mustard in two jar sizes was launched toward the end of the fiscal year. Peeled tomatoes in 100-ounce cans, specifically designed for the foodservice industry, were aimed at both home and export markets.

The company initiated radio and television advertising last January, and resumed advertising of its Guloso brand in Portugal after a two-year lapse.

Venezuela's economy grew stronger and more stable, with two revaluations of the bolivar versus the dollar. The country took steps toward joining the Andean Pact—South America's Common Market—and Alimentos Heinz studied closely the enlarged marketing and export opportunities to be made available by such a move.

The company completed a major reorganization of its Sales and Marketing Division, added highly qualified top management, widened distribution, and carried out a cost-improvement program that effected considerable savings. It made particularly notable gains in sales of ketchup, baby foods and specialty sauce lines.

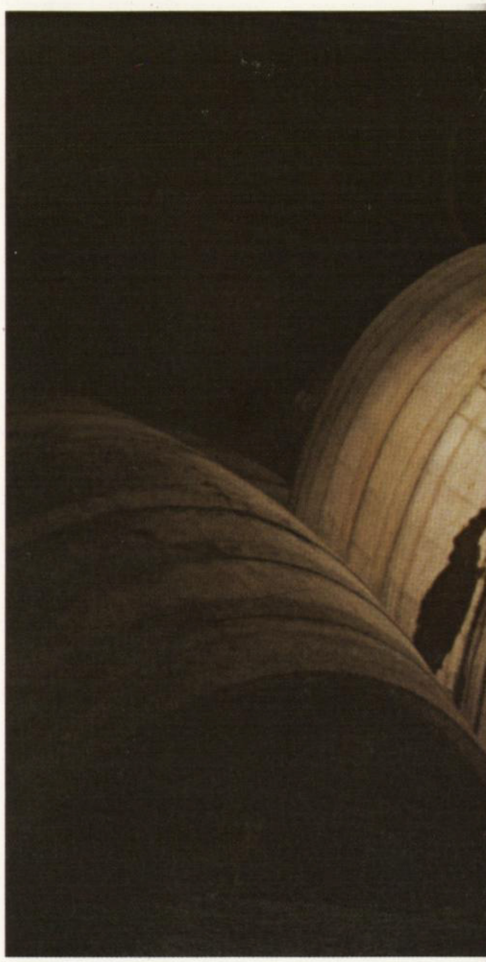
Heinz-Venezuela completely reformulated its strained baby food line and expanded a direct national sampling program for new mothers. The repurchase rate among those who participated in the sampling was double the original market share.

New product activity, which blended international and local concepts, included the launch of savory sauce and in-store testing of a special filling for a popular Venezuelan Christmas-season dish. Studies were in process or completed for 21 other new product possibilities.

We enhanced our prospects in South America by the acquisition of Produtos Alimenticios Heron, a six-year-old Brazilian company now known as Pommy's, the name under which it labels its products. Brazil's 98 million consumers turned more and more to convenience foods as the country's gross national product showed an annual growth rate in excess of eight percent and promised to rise even faster in the near future.

At the consumer level, Australian grocery sales emphasized low pricing, which greatly increased pressure on food processors for higher discounts and allowances. Buying power tended more and more to be concentrated in fewer accounts.

This competitive atmosphere justified the high priority Heinz-Australia has placed on an intensive training program for all levels of its sales force, emphasizing the ability to negotiate with key accounts. Such training is planned to be a continuing



process and will result in a more highly skilled sales team.

Institution of a formalized profit-improvement program furthered an important objective: to identify and implement cost-reduction or profit-increase projects.

The company boosted market shares in three of its five major product groups, held even in baby foods, and dropped slightly in share of the variety soup market. "Big Red" tomato soup, baked beans, and spaghetti all reached historic highs, far outstripping their closest competitors. Concentration on cost efficiency in advertising-marketing expenditures created substantial savings and thus lifted product profitability.

Heinz-Australia initiated a review of all labels and label designs in a program designed to enhance shelf display without losing consumer identification of company products.

The worth of product innovation was confirmed by the fact that approximately one-fifth of sales came from items developed within the past five years. That effort went on as vigorously as before. The anticipation that Australian consumers would eventually create a demand for reputable brands of alternate food combinations spurred national introduction of two products. High Alp, a 17-ingredient cereal, moved into all states after a successful nine-month test marketing in Queensland. Competitors followed suit, and demand for such products grew spectacularly, rivaling that for breakfast cereal. A national launch of 16-ounce cans of soya beans in tomato sauce encouraged the company to believe it had made a successful line extension.

For the foodservice industry, the company unveiled Australia's—and possibly the world's—first pack of canned salads in oil and vinegar dressing. The five varieties represent recipes developed after consultation with catering managers, chefs and consumers. Initial sales were extremely high, with heavy repeat orders. National distribution is a high-priority target after the success

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1. Pommy's display from newly-acquired Brazilian company.
2. Worker drawing test sample from oak cask, Stanley Wine Company, Australia.
3, 4. From Australia: redesigned baby cereal packages; chef using the country's first pack of canned salads in oil and vinegar dressing.

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1, 2. Japanese girl ladling Heinz soup from traditional "chagama" pot; Nichiro Heinz aide with young helper in store promotion.

experienced in New South Wales, Victoria and Tasmania.

Last December Heinz-Australia established a New Business Division charged with identification, analysis, acquisition and integration of new-to-Heinz business and/or operations now owned by others. Its basic acquisition policy is directed toward companies, in the branded nondurable consumer areas, that offer satisfactory sales and profits and whose performance would improve with the overlay of Heinz expertise.

Epicure Continental Food Company, which made and marketed a high-quality line of pickle products and relishes, was purchased early in the fiscal year. It increased its sales volume over the pre-acquisition period and extended distribution through key accounts, thus gaining the benefit of exposure and sales in major outlets. Key objectives for Epicure include still wider distribution, development of different packs, and acceleration of sales volume.

The Stanley Wine Company, in its second year of majority ownership by Heinz, produced one of its best vintages ever in both quality and quantity. Bottle sales more than doubled, and sales of bulk wine remained satisfactory, with high demand for all available quantities. New varieties introduced during the year included a Leasingham Bin 3 White Burgundy, at the premium end of the range, and Clare Riesling and Clare Claret, inexpensive but good table wines. A range of half-gallon flagon wines—Hock, Claret and Rosé—were launched late in the year. The Leasingham range performed outstandingly in the five Australian Wine shows, winning three trophies and 72 medals for its red and white table varieties.

Nichiro Heinz, our Japanese company, increased sales substantially and showed a profit for the second consecutive year. It emphasized the implementation of its profit-improvement program and the marketing of goods imported from the most economical production sources. These included instant horseradish and prepared mustard produced by Heinz U.S.A., which brought to more than 40 the total of product varieties imported from the U.S. and Canadian companies. Such products helped the company to gain a solid foothold in the expanding fast-food trade. One restaurant chain, in fact, uses a sweet gherkin variety especially manufactured to its specifications by the Canadian company. More than two-thirds of the popular "coffee shops" that serve soups offer Heinz ready-to-serve varieties.

Aside from its two new imports, Nichiro Heinz launched several domestically made products. "Classic" sauces in three varieties found high acceptance among Japanese housewives, who have turned in growing numbers to Western-style gourmet dishes. Three new condensed soups appeared in $10^1/_2$-ounce cans. Curry ketchup sauce, designed for table and cooking use, satisfies the national appetite for that flavor. A condensed potage base, which research rated superior in creaminess, consistency and flavor to its powdered-form competitors, was formulated to permit food-service chefs to create any variety of cream-type soup.

Heinz U.S.A. concentrated on the replacement of older and less efficient facilities. It completed rehabilitation of the factory at Muscatine, Iowa, replacing two buildings constructed prior to 1900 and providing space for future expansion. It completed labeling and packing facility improvements for the factory at Salem, New Jersey. An extensive can-making program saw some new equipment already in operation, and is expected to lead to the most modern can plants in the industry within the coming year. The company began consolidation of Eastern can-making facilities at Pittsburgh, including provision for production of juice and pet food cans.

Three other programs were completed during the year. At the Stockton, California factory, new facilities provided can-making capacity sufficient to handle the full range of production by the nearby Tracy factory, along with part of Star-Kist requirements. New ketchup pouch production facilities at the Muscatine factory were increased to meet rising market demand. New facilities at Tracy made it possible to produce a full line of strained and junior foods.

The Pittsburgh factory began full-time use of a hydrostatic continuous sterilizer for baby foods, connected to which is equipment for the use of bulk glass and wraparound, partitionless shipping boxes. Facilities to produce tomato juice and tomato concentrate in 55-gallon drums were expanded to handle significant volumes on the West Coast.

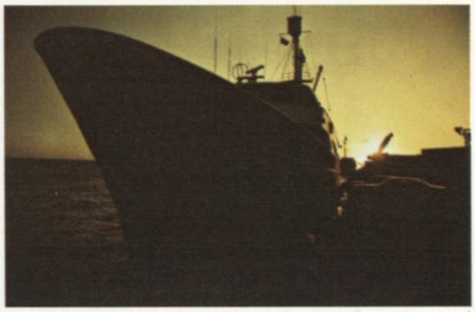
The company acquired facilities at Schaumburg, Illinois for production of the new frozen pizza discussed under MARKETING.

A new distribution center at Arlington, Texas, along with one at Los Angeles, went into operation, bringing the total of such centers to nine of eleven planned, virtually completing total U.S. coverage. The Export Department moved its Puerto Rican warehouse to larger and better facilities in order to serve its growing business there more efficiently.

Installation of a comprehensive data communication system linked field sales offices, regional distribution centers and all manufacturing plants with the company's centralized computer operations in Pittsburgh. The installation facilitates high-speed order processing and provides accurate, timely data for a wide range of planning and control systems.

Star-Kist put a new can-making facility into full operation. Located at Terminal Island, the facility will handle all Heinz and Star-Kist West Coast plate and enameling requirements. It will result in substantial cost-savings by permitting the company to buy steel in coils rather than sheets, do its own plate cutting, and complete the enameling process, formerly assigned to outside contractors.

A new pet food research facility provides for the experimental feeding of animals, and progress was made on two major projects to achieve cost savings in transship-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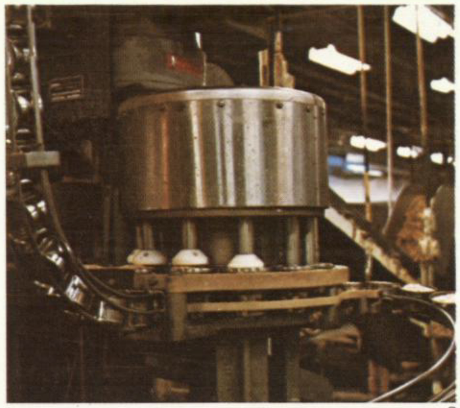
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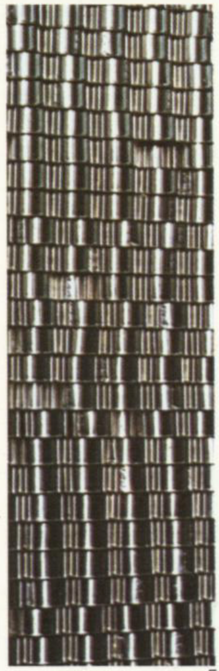
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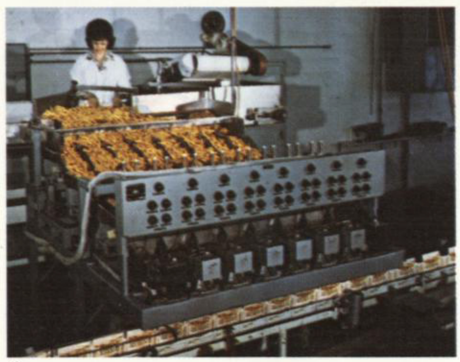
1. Star-Kist tuna ship at Puerto Rican cannery.
2. Machinery in Star-Kist plant, which put new can-making facility into full operation at Terminal Island.
3. Ore-Ida's new onion rings packaged at Ontario, Oregon.
4, 5. Case upon case, can upon can, witnesses to increased Star-Kist production.
6. French-fried potato packer at Ore-Ida, which upgraded facilities.
7. Night scene: tomato puree storage tanks in Canada.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ment of raw tuna to the company's canneries.

Ore-Ida expanded its capability for producing test quantities of new products. At the Ontario, Oregon pilot facility, the latest type of packaging equipment included automatic scales that carefully weigh each portion to be packaged.

The British company carried out a number of major projects. At Harlesden, it installed a tomato ketchup production line, a new line for making 10-ounce cans, and semiautomatic palletizers. Kitt Green expenditures covered additional cooling water facilities, extension of the automatic handling system, and enlargement of warehouse facilities. These projects made for increased production and more efficient use of space. Field House, a 20,000-square-foot office building erected at Hayes Park, accommodates 200 people formerly based at Hayes and Watford. Their transfer improved all-round operation and enabled the company to dispose of other properties.

Plasmon pushed ahead with construction of Latina II, its new plant that will cover a ground area of more than 200,000 square feet in southern Italy. The plant will contain some of the most efficient equipment in the food processing industry and will concentrate on output of infant foods, including dietetic biscuits, pastas and dried cereal products. Computers will fully control raw materials handling and proportioning. The plant's ovens will be the longest in Europe, and nominal biscuit capacity will run at the rate of 44,000 packs per hour.

The Dutch company completed plans for major capital expansion of its facilities at Elst, which already have filled, labeled, and shrink-wrapped 102,000 bottles of ketchup in a single day. New technology introduced over the past few years cut direct labor by $42^1/_2$ percent while increasing average daily production by $33^1/_2$ percent.

Alimentos Heinz completed establishment of a new Venezuela-wide distribution system, with warehouses in five re-

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1. Mushroom caves of the British company's Darlington subsidiary.
2. Latina II, Plasmon's ultramodern plant under construction in southern Italy.
3. Part of Heinz-Britain's new ketchup production line at Harlesden.
4. Canned tomato line in Venezuela.
5. Baby food depalletizing line in Australia.
6. Tomato processing lines incorporating Venezuela's first water flume system of its kind.

gional centers. Also completed and running smoothly was a new tomato receiving and handling system that incorporates the first water flume system of its kind in the country. Factory improvements prompted by a new maintenance program have resulted in more efficient manufacturing operations and laid a stronger base for future growth.

Heinz-Australia worked to improve glass palletization of tomato sauce and baby foods. The new procedure eliminates the need to unpack empty jars received in cartons before filling, and makes it possible to shrink-wrap at the point of manufacture. In the case of tomato sauce, an additional benefit has been the introduction of a tight wraparound carton-forming machine at the end of the line, application of which is planned for baby foods in the year ahead. The net effect is a highly satisfactory payoff period for the equipment, a saving in labor, and greater flexibility in the purchase of glass and board for cartons.

The company completed a changeover to 100 percent homogenization of tomato sauce and ketchup, with cost savings, reduced labor needs, and better utilization of equipment.

Equipment installed by Stanley Wine at Clare included new stainless steel fermenting tanks and an Alpha Laval centrifuge. The winery is rapidly becoming one of the most modern in the state of South Australia.

Nichiro Heinz completed the first year of a two-year program to double production through expansion of manufacturing facilities in order to meet rising demand. It established a central distribution point to serve Tokyo and its environs, which had formerly been handled by two distribution centers.

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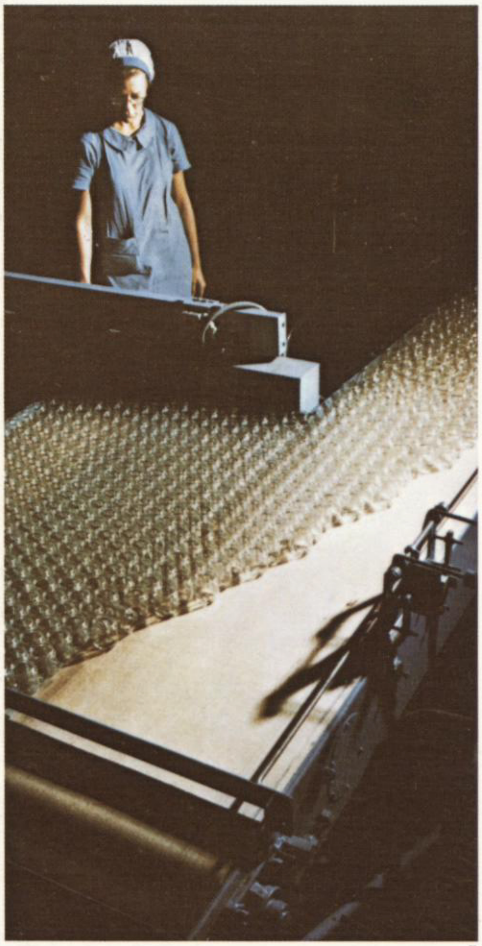

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Agriculture

Last August, the company conducted a five-day World-wide Agricultural Meeting at Bowling Green, Ohio, attended by representatives of Heinz subsidiaries around the world. The purpose of the meeting was to further the exchange of technical information among our agricultural technicians and to broaden their knowledge of agronomic practices in key Heinz companies.

Heinz U.S.A. took measures to minimize the impact of higher raw materials costs. Partly thanks to geographic diversification, it successfully met its tomato and cucumber quotas in spite of adverse growing conditions in some major areas. Mechanized harvesting programs for those crops in the East and Midwest were increased according to schedule, with plans for further extension. Approximately half of all cucumber requirements in the U.S. was mechanically harvested and hauled in bulk to Heinz receiving stations. Mechanical harvesting of tomatoes underwent trials in the South. The company perfected a statistically reliable method for determining the correlation between new tomato variety characteristics and factory results, making it possible to identify promising varieties in early generations and thus reduce breeding effort. It prepared five new tomato varieties and one cucumber variety, developed at its agricultural research centers, for introduction in the forthcoming season. Programming of tomato plant shipments from the South into Northern fields was computerized during the year. The company experimented with long-term contracts in some of its growing areas in order to achieve a more stable raw product supply for future requirements.

Ore-Ida established an Agricultural Research Department with facilities adjacent to the Ontario, Oregon factory. The new unit has two goals: to improve the over-all quality of the agricultural crops purchased for processing, and to bring about lower costs and more efficient raw product handling and storage.

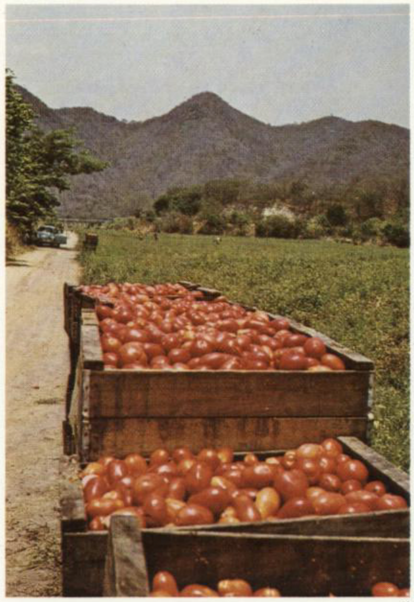
The company developed a novel method for harvesting onions and moving them into storage. The technique involves a mechanical loader and transportation by bulk trucks, replacing the older method of manual sacking in the fields. The Field Department, working with an equipment manufacturer, designed a self-powered conveyor to unload raw product brought from distant areas by refrigerated vans.

Heinz-Canada coped with poor crops due to some of the worst summer weather in decades in many parts of the country. Prices of most fruits and vegetables went up. The lateness of the season and wet weather curtailed the tomato crop, bringing tomato solids to the lowest point in years. The company had to pay more for peaches in order to maintain production, as the Essex County crop was completely destroyed and there were shortages in other important growing areas.

The British company prepared for transition to Common Market policies, which constitute the dominant factor affecting procurement and will dictate change and adjustment for the next three to five years. It further diversified tomato puree sources, stepping up supplies from Greece and Turkey and enlarging its experimental work in Morocco. These measures took on added meaning as a poor tomato puree season extended throughout Europe, making exceptional demands on Spain and Portugal and causing prices to spiral. It is expected that prices for the coming season's crop will increase substantially. Against this, the company reported encouraging development work for bean procurement in Tanzania and Ethiopia. Another potential major source of supply, once quality problems have been overcome, is East Africa.

CE In Continental Europe, we continued to co-ordinate purchases of major agricultural commodities with Heinz-Britain, to the benefit of both organizations.

The Portuguese company met with some success in trials to prove the economic feasibility of mechanical tomato harvesting. It extended research into improved tomato strains. High costs forced it to cut back substantially its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1. Where it starts: ripe tomatoes in a Venezuelan field.
2. Tomatoes for the Portuguese company, which reduced direct farming but tested mechanical harvesting.
3. Onions being harvested under a new mechanical system developed by Ore-Ida.
4. Australian inspector making on-site test of grapes for Stanley Wine Company.
5. Evidence of a bountiful harvest in Stanley Wine's Shiraz vineyard.

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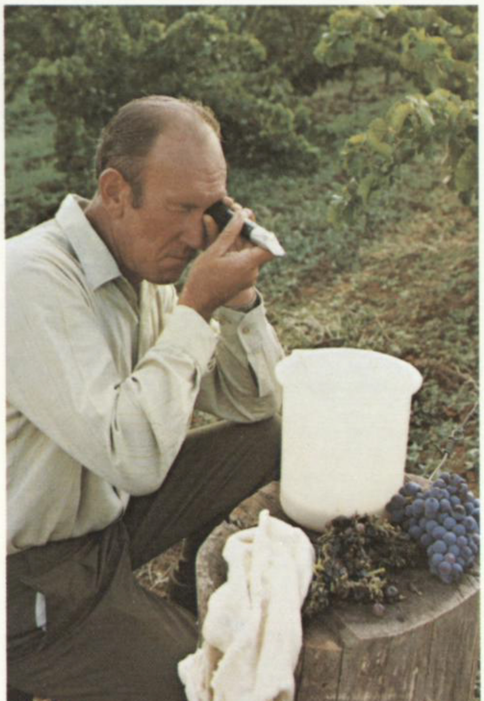

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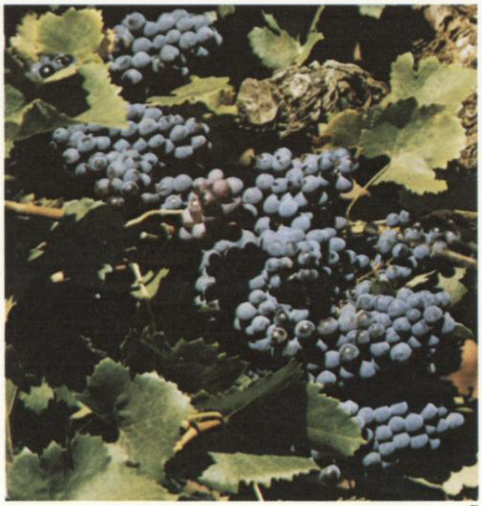

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direct farming activities in tomatoes, although its crop exceeded last year's by more than 20 percent.

Heinz-Venezuela expanded its Agricultural Department, adding a graduate agronomist and enlarging its field force during the tomato season. A severe drought underlined the need to develop techniques for out-of-season growing and harvesting of tomatoes and to produce new strains more compatible with local soil and climate.

Australia's unpredictable weather—a developing shortage of irrigation water last January was followed by torrential rains in the main growing areas—severely damaged the tomato crop. In addition, the whole peeled tomato pack was sharply affected by the inability of mechanical harvesters to operate in the waterlogged soil and by damage to plants. The performance of the "Big Red" group of varieties developed by Heinz proved outstanding, however, as Heinz's shortfall was much less than that during the last comparable wet harvest and less than that for the industry generally.

Also adversely affected by the heavy rains were early grape varieties in various districts. Later-cropping varieties grown for Stanley Wine's premium Leasingham Bin line were expected to yield at least average production, since they required rain for full development.

The long-range program sponsored by the Queensland Navy Bean Board and supported by Heinz appeared successful when an excellent crop proved adequate for Australia's total requirements. These beans have been judged superior in quality to those from other sources.

All other agricultural raw products were in sufficient supply, although farm prices, particularly for meats, trended upwards.

The Australian company achieved 100 percent conversion to bulk handling of tomatoes after a three-year program to persuade growers to accept what seemed to them a radical move. Savings better than forecast proved to the growers that the technique was both economical and convenient.

Public Service

Heinz has been involved in public service activities since the company was founded more than a century ago. Activities to improve the environment, enhance employees' opportunities and working conditions, foster better nutrition, respond to the needs of the unfortunate, support worthwhile projects in all the countries and communities in which we function—these and other efforts continued during the year just past.

Heinz U.S.A. began conversion of boilers at the Pittsburgh factory in order to permit flexibility in fuel use. It completed a similar project at the Fremont, Ohio factory. Both programs were directed toward full compliance with governmental air pollution standards.

The company is particularly involved in the adoption of new technology in activated sludge waste treatment, using pure oxygen to replace air. The new process promises many benefits, including greater reliability, increased removal of undesirable material from waste with a consequent higher quality of effluent, the use of an enclosed system to make waste treatment plants odorless, and lower operating costs, reducing rates for both municipal residents and industry. In Tracy, California and Muscatine, Iowa, the company jointly financed pilot test programs to ensure the design and construction of optimum waste treatment facilities in terms of both cost and reliability. It decided to treat its own industrial waste through construction of a major facility at Holland, Michigan, where it also approached completion of conversion from low-sulphur coal to gas fuel. It instituted a program to eliminate emission of ketchup, vinegar and other odors at the Salem, New Jersey factory, and offered the city the engineering services of its Environmental Department to help plan an upgrading of solid waste disposal and find solutions to possible waste water problems. In Pittsburgh, further financial contributions aided GRIP (Group for Recycling in Pennsylvania) and GASP (Group Against Smog and Pollution).

Other gifts of cash or supplies went to the victims of Nicaragua's earthquake and Pennsylvania's Hurricane Agnes flood. A three-story field sales warehouse at Spokane was donated to the Volunteers of America for use in sorting and baling salvaged paper.

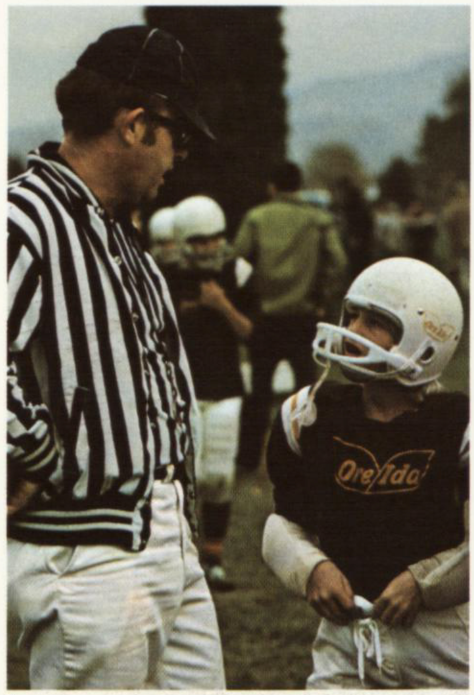
In the area of consumerism, Heinz U.S.A. worked actively on the program for Universal Product Coding, being represented on the committee and closely following every phase of development. It published a complete revision, the sixth edition, of "Heinz Nutritional Data." Other Heinz publications, including "Facts About Foods," were updated and made available to meet an increasing number of requests for information on nutrition.

In employee-oriented areas, Heinz U.S.A. extended its Affirmative Action program and its work with the Equal Employment Opportunity Commission to involve each of the company's divisions, with responsibility for all equal employment opportunity matters centralized in the newly-established Field Organization Department. The department has called on managers at all locations to develop concrete plans for increasing minority employment and to oversee promotion opportunities for qualified personnel.

The Heinz Youth Motivation Task Force, an arm of the National Alliance of Businessmen (NAB), last year concentrated on one Pittsburgh junior high school in a depressed area. It conducted an intensive program that included an 18-week sewing class, a charm and beauty clinic, "rap" sessions, a weekly tutoring service, and private talks for discussion of problems in any school subject. This year's membership grew to 33 Heinz employees, who sponsored an In-Company Career Day, specialized training classes, cultural programs, distribution of food baskets, tutoring sessions, visits to the company and trips to other cities. One member of the force visited two black colleges to discuss career opportunities.

Another activity under the aegis of the NAB—where Heinz has played a leadership role for years in the hiring of disadvantaged minority group members and veterans—was the Businessman-to-Businessman Contact Program, under which two company employees worked to promote minority hiring by smaller-scale employers. In addition, a Heinz manager was assigned on loan to the local NAB staff for a period of one year.

We continued strong support of, and personal participation in, the work of the Allegheny Conference on Community Development, an organization given much of the credit for the "Pittsburgh Renaissance" and now turning its attention to broader regional concerns, with emphasis on employment, a minority entrepreneur program, education and training, and social renewal.



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Ore-Ida proceeded with construction of a new secondary waste treatment facility for its factory at Ontario, Oregon. Incorporating a number of advanced biological treatment techniques tested and developed with the help of an outside consultant, the new facility is scheduled for completion next August. It is the outgrowth of a special large-scale pilot plant test begun in the spring of 1972.

At Greenville, Michigan, the company completed a new primary treatment facility for the more efficient removal of potato solids and wastes from factory waste water. The installation is large enough to handle demands that may arise as the result of future expansion.

Ore-Ida's work in industrial water protection was honored at the annual awards banquet of the Pacific Northwest Pollution Control Association, which hailed, among other things, "the first advanced secondary treatment facility to be financed exclusively by a potato processing company."

Heinz-Canada made its industrial waste lagoon available to the community of Leamington, Ontario, helping to solve most of the problems of an overloaded municipal plant by taking over sewage disposal entirely except for the three-month processing season. An editorial in the Leamington Post called the company "Leamington's most outstanding corporate citizen ever since it established its food processing factory here back in 1909," and cited support of cultural activities and the local hospital and arena, along with scholarships for secondary school students. Mayor Ralph Nicol noted that few other municipalities have enjoyed such a close working relationship with industry as Leamington has with Heinz.

Our British company's quality control staff, working through food trade associations, helped to produce legislation for harmonizing food regulations throughout the Common Market. It also co-operated intensively with government and research associations on studies of trace metals, nutritional values, and curing processes for meat.

The company continued its program of Heinz Traveling Fellowships for Pediatricians, making four more awards to give physicians from the British Commonwealth and the United Kingdom up-to-date experience in child care and nutrition.

In Milan, the "Second Plasmon Study Days" drew pediatrics experts from many countries to hear papers and panel discussions on infant and child nutrition. The Italian company published proceedings of the first such conference, conducted in 1972, in a thick volume widely distributed to pediatricians and other specialists.

The Venezuelan company co-operated in a standardization program initiated by the Weights and Measures Ministry to simplify consumer shopping. A shift to the metric system for containers made it easier for housewives to judge quantity and quality.

Heinz-Australia maintained its working relationship with the medical and nursing professions and consulted regularly on ethical matters with the National Health and Medical Research Council in an ongoing effort to ensure highest quality and nutritional value, particularly in baby foods. It awarded its seventh annual $5,000 nursing scholarship to Sister Mary Cornelius Tobin, who is using the funds to study pediatric techniques in Europe and the United States. The company relabeled its entire line of baby food products, color-coding the packages and providing accurate information for feeding through five stages of development from birth through three years of age.


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1. Official with budding star of Little League football team sponsored by Ore-Ida in Boise.
2. Working with young ceramicists in Pittsburgh.
3. Company-backed roller hockey team wearing Portuguese company's Guloso shirts.
4, 5. Ore-Ida water purification facilities, typical of many Heinz ecological projects.

Assets	May 2, 1973	(Note 2) May 3, 1972
Current assets:		
Cash and short-term investments	$ 75,457,130	$ 52,554,980
Accounts and notes receivable:		
Trade	100,329,508	103,835,351
Sundry	14,925,188	10,023,268
	115,254,696	113,858,619
Inventories (Note 1):		
Finished goods	261,226,418	222,842,322
Work-in-process	13,097,994	14,069,646
Ingredient and packaging materials	73,381,513	72,146,884
	347,705,925	309,058,852
Prepaid insurance, supplies, taxes and sundry (Note 2)	19,639,497	14,915,220
Total current assets (Note 5)	558,057,248	490,387,671
Investments and other assets:		
Investments in and advances to partnerships, unconsolidated subsidiaries and other companies, less estimated allowance of $17,500,000 for reduction to net realizable values in 1973 (Note 2)	10,483,820	20,255,457
Advances and loans, less allowances for losses	16,341,609	10,916,338
Excess of investments in consolidated subsidiaries over net assets at acquisition (Note 1)	12,487,057	12,531,236
Miscellaneous other assets	4,790,248	7,362,798
	44,102,734	51,065,829
Property, plant and equipment (Notes 1 and 5):		
Land	13,546,972	13,275,616
Buildings and leasehold improvements	135,573,293	129,306,748
Equipment, boats and fixtures	282,762,896	253,400,617
	418,336,189	382,707,365
Less Accumulated depreciation	177,728,614	165,570,788
	240,607,575	217,136,577
Lug boxes, baskets and pallets, less amortization	4,928,536	4,647,530
	259,083,083	235,059,723
	$861,243,065	$776,513,223

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	May 2, 1973	(Note 2) May 3, 1972
Current liabilities:		
Short-term borrowings and portion of long-term debt due within one year	$124,258,124	$109,935,272
Accounts payable and accrued expenses	126,606,163	101,580,482
Federal and foreign taxes on income (Note 6)	21,126,108	25,867,301
Total current liabilities	271,990,395	237,383,055
Long-term debt and other liabilities:		
Long-term debt (Note 5)	129,899,444	86,373,484
Liabilities under incentive profit sharing plans, less portion payable within one year	8,289,145	8,589,910
Deferred Federal and foreign taxes on income (Note 1)	15,368,474	13,025,359
Future foreign taxes on income	8,880,393	10,163,682
Sundry	8,501,788	6,744,439
	170,939,244	124,896,874
Reserve for international operations (Note 4)	4,604,957	5,519,011
Minority interests	14,101,780	14,195,152
Shareholders' equity:		
Cumulative preferred stock issuable in series:		
3.65% series (Note 7)	3,030,000	3,235,000
Second cumulative preferred stock, having an involuntary liquidation value of $100 per share or $1,382,900 based on shares outstanding ($1,657,300 in 1972), issuable in series (Note 7):		
$3.50 first series	48,285	51,615
$3.50 second series	207,552	254,986
Common stock (Notes 7 and 8)	62,818,054	62,716,412
Additional capital	56,911,135	56,438,168
Retained earnings (Note 5)	277,418,161	271,844,817
	400,433,187	394,540,998
Less Treasury shares at cost (Note 7)	826,498	21,867
	399,606,689	394,519,131
Commitments and contingencies (Notes 5 and 10)		
	$861,243,065	$776,513,223

STATEMENTS OF CONSOLIDATED INCOME / H. J. HEINZ COMPANY AND CONSOLIDATED SUBSIDIARIES

	Fiscal year ended May 2, 1973 (52 weeks)	(Note 2) May 3, 1972 (53 weeks)
Net sales	$1,205,911,897	$1,098,861,377
Cost of products sold	772,524,508	700,529,935
Gross profit	433,387,389	398,331,442
Selling, general and administrative expenses, including provision for management incentive plan of $3,165,530 ($2,720,512 in 1972)	345,555,461	313,529,090
Operating profit after provision for depreciation of $19,228,911 ($18,624,229 in 1972) (Note 1)	87,831,928	84,802,352
Other income, net	8,604,726	3,679,824
	96,436,654	88,482,176
Interest and amortization of debt discount and expense	13,812,718	11,463,169
Income from continuing operations before income taxes	82,623,936	77,019,007
Provision for income taxes (Notes 1 and 6)	30,912,757	30,702,054
	51,711,179	46,316,953
Deduct Income applicable to minority interests	1,628,697	1,637,984
Income from continuing operations	50,082,482	44,678,969
Loss from discontinued and expropriated operations, less applicable income taxes of $598,143 ($281,377 in 1972) (Note 2)	3,530,197	2,392,401
Net income before extraordinary loss	46,552,285	42,286,568
Extraordinary loss on disposal and expropriation of segments of the business, less estimated income tax effect of $6,500,000 (Note 2)	25,000,000	—
Net income	$ 21,552,285	$ 42,286,568
Per common share amounts (Note 1):		
Income from continuing operations	$3.31	$2.96
Loss from discontinued and expropriated operations	.23	.16
Net income before extraordinary loss	3.08	2.80
Extraordinary loss	1.66	—
Net income	$1.42	$2.80

See accompanying notes to consolidated financial statements.

Additional Capital	Fiscal year ended May 2, 1973	May 3, 1972
Amount at beginning of year	$56,438,168	$55,841,738
Excess of:		
Option price over par value of common shares issued and over cost of treasury shares reissued under employees' incentive stock option plans (Notes 7 and 8)	321,749	552,625
Par value over cost of preference stock retired (British subsidiary)	60,616	66,757
Par value of preferred shares over par value of common shares issued in exchange therefor	4,535	7,516
Par value over cost of cumulative preferred stock retired	86,067	22,865
Other	—	(53,333)
Amount at end of year	$56,911,135	$56,438,168

Retained Earnings	May 2, 1973	May 3, 1972
Amount at beginning of year, as previously reported	$274,409,817	$247,485,619
Prior years' adjustment (Note 3)	(2,565,000)	(2,565,000)
Amount at beginning of year, as adjusted	271,844,817	244,920,619
Add Net income for the year	21,552,285	42,286,568
	293,397,102	287,207,187
Deduct Dividends paid:		
On preferred stock:		
3.65% series	112,800	119,423
$3.50 series	52,213	64,462
	165,013	183,885
On common stock, $1.05 per share ($1.01 in 1972)	15,813,928	15,178,485
	15,978,941	15,362,370
Amount at end of year	$277,418,161	$271,844,817

See accompanying notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CHANGES IN FINANCIAL POSITION
H. J. HEINZ COMPANY AND CONSOLIDATED SUBSIDIARIES

	Fiscal year ended May 2, 1973	(Note 2) May 3, 1972
Funds Provided:		
Net income before extraordinary item	$46,552,285	$42,286,568
Add Charges to income not requiring funds:		
Depreciation	19,228,911	18,624,229
Amortization	1,719,768	1,518,744
Deferred income taxes	2,343,115	305,033
Income applicable to minority interests	1,628,697	1,637,984
Loss from discontinued and expropriated operations	3,530,197	2,392,401
Other	474,060	2,635,684
Funds from operations before extraordinary loss	75,477,033	69,400,643
Extraordinary loss	(25,000,000)	—
Less Charges not requiring funds	10,020,000	—
	(14,980,000)	—
Total funds from operations	60,497,033	69,400,643
Long-term borrowings	56,055,740	4,760,890
Exercise of stock options	464,043	643,875
Other items, net	(1,033,158)	2,904,195
Total funds provided	115,983,658	77,709,603
Funds Used:		
Additions to plant and equipment	48,322,247	28,066,893
Less Retirements and disposals	(3,350,208)	(2,527,819)
	44,972,039	25,539,074
Amortization of long-term debt	12,529,780	7,536,566
Acquisition of treasury shares	891,341	—
Dividends paid	15,978,941	15,362,370
Increase in investments and other assets (before non-cash reductions in 1973 of $3,530,197 and $10,020,000)	6,587,102	12,725,920
Decrease in other liabilities	1,962,218	1,820,518
Total funds used	82,921,421	62,984,448
Increase in working capital	$33,062,237	$14,725,155
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash and short-term investments	$22,902,150	$ 7,055,067
Accounts and notes receivable	1,396,077	(128,346)
Inventories	38,647,073	31,326,218
Prepaid expenses	4,724,277	2,361,791
	67,669,577	40,614,730
Increase (decrease) in current liabilities:		
Short-term borrowings	14,322,852	14,980,376
Accounts payable	25,025,681	10,480,474
Federal and foreign taxes	(4,741,193)	428,725
	34,607,340	25,889,575
Increase in working capital	$33,062,237	$14,725,155

See accompanying notes to consolidated financial statements.

(1) Accounting Policies:

The significant accounting policies followed by the Company and its consolidated subsidiaries are briefly described as follows:

Principles of consolidation: The consolidated financial statements include the accounts of the Company and all significant domestic and foreign subsidiaries after all material intercompany transactions have been eliminated. Investments in unconsolidated subsidiaries, partnerships and other companies are carried at cost plus equity in undistributed earnings since acquisition. Income recorded on the equity method related to these entities is included in the accompanying statements of consolidated income after provision for income taxes where appropriate.

Translation of foreign currencies: Accounts of foreign subsidiaries are translated at appropriate exchange rates. Operating accounts are translated at average rates of exchange prevailing during the fiscal years. Unrealized gains or losses on the translation of foreign currencies are credited (charged) to the reserve for international operations.

Inventories: Inventories are stated at the lower of cost (principally the average method) or replacement market.

Excess of investments in consolidated subsidiaries over net assets at acquisition: The excess of cost of investments in consolidated subsidiaries over the net assets acquired subsequent to fiscal 1971 is being amortized over forty years, and the excess arising prior to fiscal 1972 is not being amortized.

Property, plant and equipment: Property, plant and equipment are carried at cost. Major additions and betterments are charged to the property accounts, while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed in the year incurred. Property disposed of is removed from the asset and accumulated depreciation accounts with the gain or loss charged to the current income statement.

Depreciation: For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives as follows:

Buildings	5 to 50 years
Equipment and Fixtures	3 to 30 years
Boats and Automotive Equipment	3 to 20 years

Income taxes: No provision has been made for U.S. or foreign income taxes which may become payable when earnings of foreign subsidiaries are remitted as dividends; as to those subsidiaries where it is contemplated that earnings will be remitted, the credit for foreign taxes already paid generally offsets applicable U.S. income taxes. Deferred income taxes result principally from the differences between depreciation deducted for income tax purposes and for financial statement reporting. The investment tax credit is accounted for under the "flow-through" method, which recognizes the benefit in the fiscal year in which the asset is acquired and placed in service. Incentive grants received by foreign subsidiaries from foreign governments earned through capital investments are deferred and included under sundry liabilities on the accompanying consolidated balance sheets and amortized to income over the estimated lives of the related assets.

Retirement systems: It is the policy of the Company and its consolidated subsidiaries to fund pension costs as accrued. Prior service costs are amortized over varying periods not exceeding forty years.

Research and development expenses: Expenditures for agricultural, processing and marketing research and development are charged against income as incurred.

Per common share amounts: Income (loss) per common share has been computed by dividing income (loss) applicable to common shareholders by 15,060,858 (15,025,539 in 1972), which represents the weighted average number of shares of common stock outstanding during the respective years. Fully diluted amounts per share would not significantly differ from primary amounts per share.

(2) Extraordinary Loss:

In January of 1973, the Board of Directors of the Company authorized the phase out of the operations of the Mexican subsidiary and the disposal of certain assets of a United Kingdom subsidiary and of the direct farming operations of a domestic subsidiary. On May 8, 1973 (less than one week following the fiscal year-end), a subsidiary was expropriated by the Peruvian government. A provision of $31,500,000 less possible income tax benefits of $6,500,000, has been reflected as an extraordinary loss in the accompanying statements of consolidated income and represents management's best estimate of losses on disposal and potential losses which may result from the expropriation of the Peruvian subsidiary and the phasing out of the Mexican subsidiary.

Of the provision, $14,000,000 has been utilized for recorded losses as of May 2, 1973, and $17,500,000 has been applied as a reserve against the Company's investments in and advances to unconsolidated subsidiaries as of May 2, 1973. Estimated tax benefits of $1,500,000 have been applied to reduce income taxes currently payable and the remaining $5,000,000 included in prepaid taxes.

The net loss of the aforementioned discontinued and expropriated operations has been included in the statements of consolidated income for fiscal 1973 and 1972 under the caption "Loss from discontinued and expropriated operations." Net sales from such operations approximated $28,000,000 and $55,000,000 for fiscal 1973 and 1972, respectively, and have been excluded from consolidated net sales.

The related net assets of the discontinued and expropriated segments of the business are shown as investments in unconsolidated subsidiaries in the accompanying consolidated balance sheets.

The foregoing presentations in the statements of consolidated income and the consolidated balance sheets as of and for the year ended May 3, 1972 represent the retroactive restatement of such financial statements under the equity method of accounting for unconsolidated subsidiaries rather than as consolidated subsidiaries as originally presented for fiscal 1972.

(3) Prior Years' Adjustment:

As a result of an agreement with the Internal Revenue Service in the application of certain income allocation techniques and other matters, the Company's Federal income tax returns filed for 1968 and 1969 have been settled and the resulting deficiencies paid, with interest, in fiscal 1973. This settlement, together with potential additional taxes and interest which may become due upon the examination of the fiscal 1970 Federal income tax return through the application of the same income allocation techniques, has been charged to the beginning fiscal 1972 retained earnings. In the opinion of management, the potential application of the aforementioned techniques will have no significant effect on taxable income reported by the Company in fiscal 1971 and 1972 and adequate reserves are available for the relatively minor additional income taxes which may become payable for such years.

(4) Foreign Operations:

Consolidated net assets were in companies located as follows:

	May 2, 1973	May 3, 1972
Western Hemisphere:		
United States and its Possessions	$230,069,565	$218,387,403
Other	35,096,835	43,316,856
	265,166,400	261,704,259
Eastern Hemisphere:		
British Commonwealth	101,343,513	99,960,926
Other	33,096,776	32,853,946
	134,440,289	132,814,872
	$399,606,689	$394,519,131

Realization in U.S. dollars of assets located outside the United States is limited in certain instances by currency and other restrictions.

In fiscal 1972, because of the major changes that occured in the exchange rates of some foreign currencies, more realistic results were obtained by translating the operating accounts of the Heinz subsidiaries located in those countries at the new exchange rates that were in effect after such major fluctuations. The net effect of using these rather than the average rates prevailing during the year did not materially affect consolidated net income.

Of the consolidated net sales and the consolidated net income before extraordinary loss and before discontinued and expropriated operations for fiscal 1973, $501,324,096 ($471,699,066 in 1972) and $23,456,341 ($20,555,878 in 1972), respectively, originated from subsidiaries located outside the United States and its possessions. Dividends received by the Company from such subsidiaries during fiscal 1973 aggregated $14,103,669 ($10,077,141 in 1972).

Unrealized gains and losses on the translation of net current assets of foreign subsidiaries and from devaluations of currencies are charged or credited to the Reserve for international operations. The net charge for 1973 amounted to $914,054, while the reserve was credited in 1972 with $2,989,051 primarily as a result of devaluation of the U.S. dollar.

(5) Long-Term Debt:

Details of long-term debt at May 2, 1973 and May 3, 1972 follow:

	Interest per cent
Company:	
Debentures	7¼%
Promissory notes	4½
Promissory notes	5¼
Promissory notes	6⅝
Other	to 6
Subsidiaries:	
Promissory notes:	
Australia	to 9
Canada	to 7½
England	to 6
Italy	to 4
Japan	to 7⅜
Portugal	7¾
Other	to 8
Debentures:	
England	to 6
Mortgages and contracts:	
Domestic	to 7
Other	to 7
Total long-term debt	
Less Portion due within one year:	
Company	
Subsidiaries	

Under the most restrictive covenants of the indenture relating to the debentures in 1973 and the agreements relating to the promissory notes of the Company in 1972, retained earnings of $39,000,000 at May 2, 1973 ($164,000,000 at May 3, 1972) were available for dividends.

Approximately $41,400,000 of property, plant and equipment of domestic and foreign subsidiaries is subject to liens to secure $15,000,000 of indebtedness of such subsidiaries. In addition, current assets of $125,000,000 and property, plant and equipment of $62,000,000 of certain foreign subsidiaries may become subject to liens to secure indebtedness of $13,000,000 in the event of default under the provisions of the related loan agreements.

Long-term debt incurred by unconsolidated subsidiaries and entities primarily to acquire boats aggregated approximately $17,500,000 at May 2, 1973. The Company and a subsidiary have guaranteed long-term debt of unconsolidated entities and other third parties approximating $11,600,000 at May 2, 1973 substantially all of which is included in the foregoing $17,500,000.

Aggregate principal payment requirements, exclusive of unconsolidated subsidiaries and entities, on long-term debt outstanding at May 2, 1973 during the four years succeeding fiscal 1974 are as follows:

1975	$3,393,000
1976	$3,968,000
1977	$7,471,000
1978	$3,140,000

Maturity (fiscal year)	1973	1972
1984-98	$ 50,000,000	–
1974	5,000,000	$ 9,000,000
1974-84	11,000,000	12,000,000
1979-93	40,000,000	40,000,000
1974-82	528,332	367,331
	106,528,332	61,367,331
1974-77	5,615,827	8,300,274
1974	750,000	1,565,650
1974-76	192,477	236,034
1974-88	9,874,966	5,644,800
1976-78	1,200,000	600,000
1974-77	932,480	1,139,600
1974-79	1,310,252	1,308,578
1974-85	7,395,936	7,990,625
1974-2000	5,138,411	5,745,952
1975-77	61,290	48,200
	32,471,639	32,579,713
....	138,999,971	93,947,044
....	6,138,235	5,153,999
....	2,962,292	2,419,561
	9,100,527	7,573,560
	$129,899,444	$86,373,484

(6) Income Taxes:

The provision for Federal, State, U.S. Possessions and foreign taxes on income for the fiscal years ended May 2, 1973 and May 3, 1972 appearing in the statements of consolidated income consist of the following:

	1973	1972
Federal, State, and U.S. Possessions:		
Current	$10,794,312	$10,718,832
Deferred	279,666	1,650,108
	11,073,978	12,368,940
Foreign:		
Current	17,775,330	19,678,189
Deferred	2,063,449	(1,345,075)
	19,838,779	18,333,114
	$30,912,757	$30,702,054

The current provision for Federal taxes in fiscal 1973 includes a reduction for the investment tax credit amounting to $683,195 ($447,738 in 1972).

Undistributed earnings of foreign subsidiaries which have been or will be invested indefinitely or, upon remittance, will be offset by foreign taxes already paid amounted to $144,000,000 at May 2, 1973 ($140,000,000 at May 3, 1972).

(7) Capital Stock:

The number of shares authorized, outstanding, issued, retired, or converted, and the par values of the Company's capital stock are presented in the table below.

	Preferred stocks	Second cumulative preferred			
	Cumulative preferred 3.65% series $100 par	$3.50 First series $18.50 par	$3.50 Second series $18.50 par	Common stock $4.16⅔ par	Treasury stock
Authorized as of:					
May 3, 1972	32,350	2,790	13,783	20,000,000	–
May 2, 1973	30,300	2,610	11,219	20,000,000	–
Outstanding, issued, retired, or converted:					
Year ended May 3, 1972:					
Outstanding at beginning	32,893	6,969	17,965	14,994,741	5,248
Reacquired and retired	(543)	–	–	–	–
Converted to common stock	–	(4,179)	(4,182)	–	–
Issued:					
For second cumulative preferred stock:					
$3.50 First series	–	–	–	18,570	–
$3.50 Second series	–	–	–	16,728	–
On exercise of stock options	–	–	–	21,900	–
Outstanding at end	32,350	2,790	13,783	15,051,939	5,248
Year ended May 2, 1973:					
Outstanding at beginning	32,350	2,790	13,783	15,051,939	5,248
Reacquired and retired	(2,050)	–	–	–	–
Converted to common stock	–	(180)	(2,564)	–	–
Treasury stock acquired	–	–	–	–	21,800
Issued:					
For second cumulative preferred stock:					
$3.50 First series	–	–	–	798	–
$3.50 Second series	–	–	–	10,256	–
On exercise of stock options	–	–	–	13,340	(3,250)
Outstanding at end	30,300	2,610	11,219	15,076,333	23,798

The beginning and ending balances for common stock for fiscal 1972 in the table presented above and in the shareholders' equity section of the accompanying consolidated balance sheets have been restated to show common stock excluding a deduction for treasury stock which was heretofore included.

The 3.65% series cumulative preferred stock is callable or redeemable through the sinking fund at $102.75 per share. A payment, not exceeding $200,000, is required to be made to the sinking fund on or before October 1 of each year.

The $3.50 first series second cumulative preferred stock may be redeemed by the Company at $100 per share. On or before August 1, 1973, and on or before each August 1 thereafter, so long as any shares of this series are outstanding, the Company (as and for an annual sinking fund) shall retire through redemption, purchase or otherwise, at least 2% of the total number of shares outstanding at the close of business on June 1, 1973.

The $3.50 second series second cumulative preferred stock is convertible into common stock at any time prior to February 1, 1976 at an initial conversion rate of four shares of common stock and may be redeemed by the Company through January 31, 1974 at $101 per share and at $100 per share thereafter. On or before April 1, 1976, and on or before each April 1 thereafter, so long as any shares of this series are outstanding, the Company (as and for an annual sinking fund) shall retire through redemption, purchase or otherwise, shares of this series equal to 2% of the total number of shares outstanding at the close of business on February 1, 1976.

At May 2, 1973 and May 3, 1972, there were authorized, but unissued, 100,000 shares of cumulative preferred stock for which the series has not been designated, 1,755 shares of second cumulative preferred stock for which the series has not been designated, and 250,000 shares of third cumulative preferred stock having a par value of $100 per share.

At May 2, 1973, 441,976 (469,622 at May 3, 1972) shares of common stock were reserved for conversion of second cumulative preferred stock outstanding and for outstanding options or for the granting of options under the employees' stock option plans.

(8) Employees' Stock Option Plans:

The 1970 Stock Option Plan (1970 Plan) permits the granting of options to purchase a maximum of 300,000 shares of common stock of the Company at not less than the fair market value at the time the options are granted for qualified options and non-qualified options to purchase unrestricted shares, and at not less than the fair value (determined by the Executive Compensation Committee) at the time options are granted for non-qualified options to purchase restricted shares. The Committee determines the period during which options are exercisable which, from the date of grant, may not exceed five years for qualified options or ten years for non-qualified options. No options may be granted after June 9, 1980, the expiration date of the Plan.

The qualified employees' incentive stock option plan (Plan No. 2) permits the granting of options on shares of common stock of the Company at not less than the fair market value at the time the options are granted. The options are exercisable at any time within five years from the date of grant but no later than July 9, 1975, the expiration date of the Plan.

Data regarding options granted and exercised and shares reserved for additional grants are presented in the table below.

(9) Retirement Systems:

The Company and the majority of its domestic and foreign subsidiaries have several pension plans covering substantially all employees. The total pension expense for fiscal 1973 was $7,306,231 ($7,003,517 in 1972). The actuarially computed vested benefits of the plan covering employees of the Company and its significant domestic subsidiaries exceeded fund assets by approximately $3,800,000 at May 2, 1973.

(10) Other Matters:

One of the Company's foreign subsidiaries has an unresolved tax issue involving the tax deductibility of technical service fees it paid to another affiliate during the period from fiscal 1965 through fiscal 1973. The issue is currently in litigation and should the subsidiary be unsuccessful in sustaining its position, the tax and interest thereon to May 2, 1973 could aggregate $8,100,000. The Company cannot predict with certainty the outcome

	1970 Plan		Plan No. 2	
	Shares	Average prices	Shares	Average prices
For the year ended May 3, 1972:				
Shares under option at beginning	1,000	$31.75	76,290	$30.29
Options granted	34,100	$40.92	—	—
Options exercised	1,000	$31.75	20,900	$29.29
Shares under option at end	34,100	$40.92	55,390	$30.67
Shares reserved for granting of additional options	264,900		47,700	
For the year ended May 2, 1973:				
Shares under option at beginning	34,100	$40.92	55,390	$30.67
Options granted	26,745	$41.98	—	—
Options exercised	—	—	16,590	$27.97
Shares under option at end	60,845	$41.38	38,800	$31.82
Shares reserved for granting of additional options	238,155		47,700	

of this matter but, in the opinion of the subsidiary's tax counsel, while it may take a number of years to finally resolve this matter, there is a substantial probability that it will ultimately be resolved in favor of the subsidiary. In view of the uncertainty regarding the outcome of this issue, no provision has been made for taxes or interest in the accompanying statements of consolidated income.

Certain claims filed against the Company and certain of its subsidiaries (other than the matter referred to in the preceding paragraph) have not been finally adjudicated. In the opinion of management, such claims, when finally determined, will have no material adverse effect on the consolidated financial statements.

Contracts and purchase orders approximating $14,800,000 at May 2, 1973 ($17,000,000 in 1972) have been executed in connection with plant construction.

Accountants' Report

The Shareholders
H. J. Heinz Company:

We have examined the consolidated balance sheets of H. J. Heinz Company and consolidated subsidiaries as of May 2, 1973 and May 3, 1972 and the related statements of income, additional capital, retained earnings and changes in financial position for the respective fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements of certain subsidiaries, which are included in the consolidated statements, were examined by other independent public accountants whose reports have been furnished to us. Both the net assets and net sales of such subsidiaries constitute approximately 22% (22% and 24% in 1972, as restated) of the related consolidated figures.

During the year ended May 2, 1973, as more fully described in Note 2 of the notes to the consolidated financial statements, the Company provided for extraordinary losses on the discontinuance, disposal and expropriation of certain segments of the business. The ultimate determination of such losses, including the tax effect, are not readily determinable.

In our opinion, based on our examination and the aforementioned reports of other independent public accountants, the above mentioned financial statements present fairly the financial position of H. J. Heinz Company and consolidated subsidiaries as of May 2, 1973 and May 3, 1972 and, subject to the ultimate determination of the matters discussed in the preceding paragraph, the results of their operations and changes in financial position for the respective fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving effect to the restatement referred to in Note 2 of the notes to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

Henry W. Oliver Building
Pittsburgh, Pa. 15222
June 25, 1973

10-YEAR FINANCIAL SUMMARY (1) / H. J. HEINZ COMPANY AND CONSOLIDATED SUBSIDIARIES

(In thousands of dollars except number of shares and shareholders and per share data)

Fiscal year	1973	1972
Net sales as previously reported	$ —	$1,153,798
Less Net sales of discontinued and expropriated operations	— (2)	54,936
Net sales as restated	1,205,912	1,098,862
Income from continuing operations before taxes	82,624	77,019
Taxes on income	30,913	30,702
Income from continuing operations	50,082	44,679
Income (loss) from discontinued and expropriated operations	(3,530)	(2,392)
Net income before extraordinary items	46,552	42,287
Extraordinary items	(25,000)	—
Net income	21,552	42,287
Dividends paid:		
Preferred	165	184
Common	15,814	15,178
Retained earnings	5,573	26,925
Additions to plant and equipment	48,322	28,067
Depreciation	19,229	18,624
Net plant and equipment	259,083	235,060
Working capital	286,067	253,005
Long-term debt	129,899	86,373
Shareholders' equity	399,607	394,519
Per common share amounts (4):		
Primary income per share:		
Net income before extraordinary items	3.08	2.80
Extraordinary items	(1.66)	—
Net income	1.42	2.80
Fully-diluted income per share (5):		
Net income before extraordinary items	3.07	2.79
Extraordinary items	(1.65)	—
Net income	1.42	2.79
Dividends paid	1.05	1.01
Retained earnings	2.03	1.79
Book value (6)	26.25	25.89
Average common shares outstanding (7)	15,060,858	15,025,539
Number of common shareholders	10,304	10,630
Price of common shares:		
High	46.2500	47.2500
Low	38.0000	38.7500

(1) The amounts presented for 1964 to 1972 have been restated to reflect operations discontinued and expropriated during 1973 on a one-line basis. In addition, data for 1968, 1969 and 1970 have been restated to reflect the prior-year adjustment recorded during 1973. For additional information, see Notes 2 and 3 of Notes to Consolidated Financial Statements.

(2) Sales of discontinued and expropriated operations during 1973 were approximately $28,000,000.

(3) Includes $454,526 in 1966 and $771,106 ($623,467 of which was stock) in 1965 paid to former owners of Ore-Ida Foods, Inc.

(4) Adjustments have been made to reflect a 2 for 1 stock split in February, 1969.

(5) Based on the assumption that the second cumulative preferred stock outstanding during each year had been converted into common shares at the beginning of each year and the related dividends eliminated and that stock options, and, for years 1965 to 1970, the stock purchase warrant have been exercised and the proceeds used to reacquire common stock.

(6) After deducting $100 per share involuntary liquidation price of the second cumulative preferred stock.

(7) Shares outstanding at year-end for 1968 and prior.

1971	1970	1969	1968	1967	1966	1965	1964
$989,735	$881,171	$790,146	$734,365	$690,863	$620,263	$556,267	$488,211
50,721	43,035	31,285	23,173	19,053	17,433	16,142	8,782
939,014	838,136	758,861	711,192	671,810	602,830	540,125	479,429
64,667	56,529	48,759	46,543	38,956	36,447	33,930	28,214
25,159	22,198	19,254	19,631	14,558	14,009	13,952	13,340
38,171	33,090	28,349	25,629	23,117	21,209	18,930	13,829
(503)	(1,384)	(762)	(1,225)	(1,587)	(905)	289	720
37,668	31,706	27,587	24,404	21,530	20,304	19,219	14,549
—	—	59	(1,910)	—	—	—	—
37,668	31,706	27,646	22,494	21,530	20,304	19,219	14,549
314	635	1,187	1,512	1,535	1,362	1,229	1,158
14,468	11,573	9,506	7,718	6,839	7,062 (3)	6,073(3)	5,276
22,886	19,498	16,953	13,264	13,156	11,880	11,917	8,115
30,449	40,047	28,810	25,065	31,081	25,041	24,815	19,661
18,260	15,849	14,395	13,109	12,823	12,157	8,970	8,883
229,664	236,164	217,036	203,556	198,157	181,738	172,573	145,000
238,279	224,439	183,812	179,426	136,012	136,244	138,611	136,919
89,149	96,248	96,810	97,483	63,354	63,654	71,990	68,073
366,969	341,005	275,610	254,522	240,549	227,333	216,441	193,687
2.53	2.34	2.21	1.99	1.76	1.65	1.55	1.27
—	—	.01	(.16)	—	—	—	—
2.53	2.34	2.22	1.83	1.76	1.65	1.55	1.27
2.50	2.27	2.06	1.83	1.63	1.53	1.45	1.21
—	—	—	(.14)	—	—	—	—
2.50	2.27	2.06	1.69	1.63	1.53	1.45	1.21
.98	.88	.79½	.67½	.60	.60	.50	.50
1.55	1.46	1.42½	1.15½	1.16	1.05	1.05	.77
24.10	22.63	20.21	18.46	17.27	16.12	15.06	15.02
14,777,214	13,252,859	11,930,741	11,487,092	11,402,438	11,397,738	11,384,220	10,572,592
11,133	11,047	9,853	9,813	10,767	10,658	8,156	6,983
45.1250	39.0000	36.0000	25.3750	20.5625	24.6875	27.2500	25.3125
28.7500	28.2500	23.5000	17.0625	13.8750	19.3125	18.0625	18.1250

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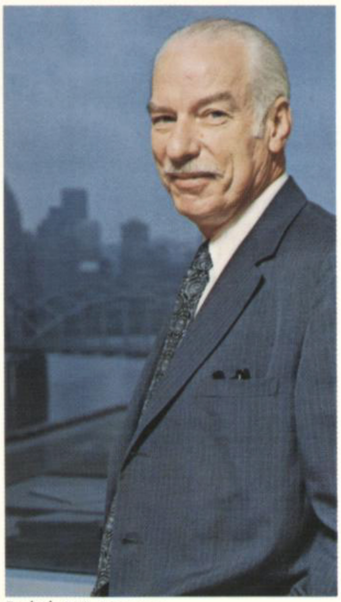

Ralph W. Hunter

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Pittsburgh National Bank
Pittsburgh, Pennsylvania

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DIVIDEND DISBURSING AGENT

Mellon Bank N.A.
Pittsburgh, Pennsylvania

AUDITORS

Peat, Marwick, Mitchell & Co.
Pittsburgh, Pennsylvania

STOCK LISTING

New York Stock Exchange
Ticker Symbol HNZ

World Locations

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P.O. Box 57
Pittsburgh, Pennsylvania 15230

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Pittsburgh, Pennsylvania
Raymond F. Good, President
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- Bowling Green, Ohio
- Chambersburg, Pennsylvania
- Fremont, Ohio
- Holland, Michigan
- Isleton, California
- Lakeview, Michigan
- Muscatine, Iowa
- Pittsburgh, Pennsylvania
- Salem, New Jersey
- Schaumburg, Illinois
- Stockton, California
- Tracy, California
- Watsonville, California
- Winchester, Virginia

STAR-KIST FOODS, INC.
Terminal Island, California
Joseph J. Bogdanovich, President
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- Ilo, Peru
- Coishco, Peru
- Pago Pago, American Samoa
- Mayaguez, Puerto Rico

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- Ghana
- Republic of the Congo
- Paita, Peru
- Papua, New Guinea
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- Burley, Idaho
- Greenville, Michigan

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Factory:
- Dandenong, Victoria

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Fred V. Kellow, Managing Director

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Clare, South Australia
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Factory:
- Leamington, Ontario

GALCO FOOD PRODUCTS LTD.
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H. Gallinger, President

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Kazuo Asai, President
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- Kurihama

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John G. Johnson, President
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- San Joaquin, Carabobo

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- Coleraine, Northern Ireland (Pickerings Foods Ltd.)

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CE

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Director-Central Europe

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John H. Newhall
Acting Managing Director
Factory:
- Elst, Gelderland

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General Manager, Marketing and Sales

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4 Düsseldorf, Germany
S. A. Launder
General Manager, Marketing and Sales, Germany

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Dr. Nicolo Pellizzari, Managing Director
Factory:
- Latina

Heinz

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